

PATTERNS OF INTERNATIONAL BUSINESS ACTIVITY
IN AN EAST EUROPEAN COUNTRY:
THE CASE OF BULGARIA

by

Detelin S. Elenkov

Submitted to the Alfred P. Sloan School of Management
in Partial Fulfillment of the Requirements
for the Degree of
Doctor of Philosophy in Management

Massachusetts Institute of Technology

April 1992

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ABSTRACT

The main purpose of this thesis is to provide a stepping-stone for further advancement in the field of East European business studies through better understanding of the specific content and general orientation of the patterns of international business activity in that region. In addition, it is presumed that the creation of a special theory of doing international business in East Europe is probably not necessary since this subject is likely to be given an adequate interpretation within the framework of the institutional, strategic behavior, and transaction cost theories, incorporated in the gaining increasing popularity Global Integration/ Local Responsiveness paradigm.

The following research questions are answered: What is the specific content of the patterns of equity-based foreign business involvement in a selected East European country? What is the general orientation of the patterns of international business activity in that country? Is it necessary to develop a special theory of doing international business in East Europe? What are the characteristics of the task environment in East Europe? What are the critical determinants of the patterns of international business activity in the selected East European country?

The primary data was collected during five months of field research in Bulgaria. The main sources of information were a series of participant observations and personal interviews conducted on the premises of the Bulgarian subsidiaries of Honeywell Inc. (Systematics Co.), the Dow Chemical Co. (Chimtrade), and Fanuc Ltd. (Fanuc-Machinex Co.). Subsequently, the primary data was used to develop the company cases of Systematics, Chimtrade, and Fanuc-Machinex.

In order to examine more elaborately and deeply the collected data on the peculiarities and dynamism of the equity-based foreign business involvement in Bulgaria, this thesis has further provided for theoretical substantiation of the patterns of international business activity in that East European country. Moreover, three sets of hypotheses have been developed from, respectively, institutional, strategic behavior, and transaction cost perspectives.

The basic theory asserts that the institutional environment and cultural norms make a crucial impact on the patterns of foreign business involvement in the selected East European country. Hence, the institutional factors, like power-networks, property rights, and cultural concord (or the level of consistency between the cultural norms of institutional actors and the behavioral requirements of the dominant formalized economic institutions) are hypothesized to be the critical determinants of the specific content of the patterns of international business activity in Bulgaria.

The thesis has established that the organizational structures of foreign subsidiaries in Bulgaria become increasingly informal, complex, decentralized, and internally integrated; the movement of Bulgarian managers and technical specialists within the management systems of international parent companies grows, while the transfer of non-Bulgarian personnel to the respective affiliates in the East European country remains insignificant; the transfer of fairly advanced product-embodied technologies is largely displaced by the transfer of conventional process- and people-embodied technologies to Bulgaria; and the annual revenues of foreign subsidiaries in that country remain small, while the value-adding scope, geographic range, and relative importance of the business operations of these firms grow.

In addition, the use of the Global Integration/ Local Responsiveness framework has allowed to determine the general orientation of the patterns of foreign business involvement in Bulgaria. As a matter of fact, the case studies of Systematics, Chimtrade, and Fanuc-Machinex have given ample evidence that, in the first place, the coordination between the organizational mechanisms of these foreign subsidiaries and the organizational mechanisms of their international parent companies tends to grow; the incorporation of employees of Systematics, Chimtrade, and Fanuc-Machinex in global management systems of the respective

International firms takes more and more often place; the technological intensity (that is, the extent to which the technological basis of the national affiliate consists of technologies specific for foreign parent company) of the Bulgarian subsidiaries has the tendency to increase (mostly through frequent transfers of proprietary process-embodied technologies to the East European country); and the integration of the functional operations of Systematics, Chimtrade, and Fanuc-Machinex in global business operations of their international parent firms becomes more and more pronounced.

In the second place, the case studies of the selected three foreign subsidiaries have clearly shown that the adaptation of the organizational processes of these firms to the characteristics of the immediate business environment tends to grow (moreover, the enforced subordination to the bureaucratic model imposed by the dominant communist power-network has been largely displaced by deliberate and flexible adjustments of the current organizational mechanisms with due account to the dynamic changes of the task environment in Bulgaria); the personnel policies of Systematics, Chimtrade, and Fanuc-Machinex become more and more closely associated with the supply and qualifications of local labor; the effectiveness of technology transfers to local companies increases; and the aggregate of functional operations of Bulgarian subsidiaries has the tendency to enhance the industrial capabilities of the East European country. In brief, it can be generalized that the business activity of foreign affiliates in Bulgaria is characterized by both increasing integration in global activities of the respective international parent companies and deepening embeddedness in the local context.

Moreover, the use of the integrative research framework has made it possible to put a meaningful theoretical interpretation on the specific content of the patterns of international business activity in Bulgaria. That is why, the recent efforts of some scholars to create a special theory of doing international business in East Europe have appeared to be premature. In other words, it is not necessary to "reinvent the wheel" in order to gain a deeper understanding of the characteristics of foreign business involvement in East Europe. Besides, the operationalization of the Global Integration/ Local Responsiveness framework gives an opportunity to avoid the danger of fostering regional parochialism in East European business studies at the expense of the collaboration among scholars from different countries.

Furthermore, the task environment in East Europe in general and, particularly, in Bulgaria has turned out to be characterized by a powerful and influential socio-political component, namely the powerful elite groups (formerly the network of the communist nomenclatura), a healthy technological component, and traditionally weak, although recently picking up, competitor, customer, and supplier components. The application of the Global Integration/ Local Responsiveness framework to the study of the patterns of international business activity in Bulgaria has also highlighted the role of the establishment and maintenance of preferential exchange-of-favors relations with economic elite groups, as well as, the effective transfer of market-oriented knowledge as the critical success factors in the East European country at present.

In addition, the interpretive analysis of the collected data has indicated that power-networks, property rights, and cultural concord have actually been the critical determinants of the patterns of international business activity in Bulgaria. In other words, it has been established that the institutional theory can provide an adequate explanation of the complex changes in the composite elements of the foreign business involvement in the selected East European country.

Besides, the strategic behavior and transaction cost theories have proved useful to analyze and understand most of the specific characteristics of the patterns of international business activity in Bulgaria. Nevertheless, the capacity of these theories to provide a complete and adequate explanation of the changes in the composite elements of the foreign business involvement in the East European country has appeared to be limited by their relatively narrow fields of reference.

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FOREWORD

The fall of the totalitarian communist regimes in East Europe has marked the end of the forced isolation of the region from the rest of the world. East European countries have one after another begun to adopt various programs for stimulating foreign business involvement in their economies. Government officials and economic experts from these countries have almost unanimously agreed that foreign investments (especially by companies from industrially-developed countries) are indispensable as far as the effective transformation of the post-totalitarian economies on market principles is concerned. The parliaments of East European countries have voted for new foreign investment regulations that are, by and large, among the most liberal of their kind in the world, while the recently-formed non-communist governments in East Europe have issued decrees, providing firm guarantees for protection of the rights on intellectual property, including foreign technology.

Moreover, the fundamental socio-economic and political changes in this region have made it increasingly attractive to western businessmen -- East Europe offers highly-qualified engineers and skillful workers who can be hired cheaply, industrial facilities which can be bought for only a small fraction of their real value, market structures that are dominated by state-owned economic

associations, that is inexperienced competitors, and generally positive attitude of the local people towards international companies.

Nevertheless, the response of firms from industrially-developed nations to the emerging business opportunities in East European countries appears to be relatively cautious and hesitant. In most cases, western capital investments turn out to be small, transfers of proprietary technology are limited, and the local business activities of international firms appear to be of narrow value-adding range and product scope. Notably, the East European affiliates of these companies are mostly focused on local marketing and sales, while manufacture of products seems to be generally avoided by them (So, they prove to employ mainly salesman) (Apostolov, 1991; Dimitrova, 1991).

In brief, it appears that international business activity in East Europe is characterized by some puzzling and complex peculiarities. Progress in the field of East European business studies requires satisfactory explanation of these unique characteristics. However, the enormous complexity and dynamics of all socio-economic processes in that region, including the process of foreign business involvement, as well as the persistent cultural differences between East European countries on one hand, and the western industrially-developed countries on the other hand, have made it difficult to build consistent sets of empirical data. Consequently, the field of East European business studies still lacks an adequate empirical data base that can be related to

potentially useful international business paradigms (Kogut, 1986; Morton, 1988; Rosten, 1991).

Furthermore, the efforts of some researchers, who have recently sought to create a special theory of the international business activity in East Europe (Oliver, 1991; Winiecki, 1991; Rosten, 1991), have actually highlighted the danger of fostering regional parochialism in international business studies at the expense of the cooperation between international and non-international specialists, as well as the collaboration among scholars from different countries (Daniels, 1991).

The main purpose of this thesis is to provide a stepping-stone for further advancement in the field of East European business studies through better understanding of the specific content and general orientation of the patterns of international business activity in that region. In particular, the goal is to build an internally-consistent empirical data base, which can be subsequently used to analyze and explain the characteristics of foreign business involvement in East Europe. A related objective is to present an argument that the creation of a special theory of doing international business in countries of this region is not necessary since this subject is likely to be given an adequate interpretation within the framework of the institutional, strategic behavior, and transaction cost theories, incorporated in the gaining increasing popularity Global Integration/ Local Responsiveness paradigm (Doz and Prahalad, 1991; Ghoshal and Westney, 1992).

In addition, this dissertation aims at identifying the critical determinants of the patterns of foreign business involvement in East Europe. Another major goal is to examine the characteristics of the business environment in this region in order to reveal the critical factors (which are presumed to be of interorganizational as well as intra-organizational nature) for successfully operating in the various East European markets.

INTRODUCTION

I.1. Stylized facts and basic presumptions.

Despite the favorable provisions of the foreign investment laws in some East European countries, like Hungary and Bulgaria, that allowed even ten years ago for subsidiaries of international companies to be established there, and irrespective of the availability of highly-qualified technical specialists and skilful workers who received small normatively-fixed salaries or wages in those countries, very few western companies had set up wholly-owned affiliates in East Europe before the demise of the totalitarian communist regimes in the second half of 1989. Notably, only seven foreign subsidiaries were founded between 1983 and 1986 in Bulgaria (TABLE No I.1). Moreover, all those firms were organized as international joint ventures.

Systematics, or the first affiliate of Honeywell in East Europe, was one of them. That joint venture was created in order to become a system-integrator assisting Honeywell's European operations as well as a supplier of modern engineering products and automation systems that could contribute to the "revolutionary upgrading" of the industrial facilities in Bulgaria. But during the first several years of its existence Systematics failed to perform the functions for which it had been established. As a matter of

fact, the business operations of the joint venture were of small-scale and narrow scope, and it was not involved in projects of great importance for Honeywell or the Bulgarian economy.

Since the critical events of the fall of 1989, the scope of Systematics business operations has increased, and the joint venture has taken part in several very important for both Honeywell and Bulgaria projects. But the level of sophistication of Honeywell technologies, which have recently been transferred to this already non-communist East European country, has decreased. Besides, personnel transfers from various affiliates of the American parent company to Systematics have been negligible. The scale of the business operations of this Honeywell's subsidiary has also remained small.

Furthermore, the leading position of Systematics in the industrial and residential automation sector in Bulgaria has been challenged by several firms lately. But the number of international competitors has not increased rapidly. Despite the massive positive changes in the business environment in this East European country, western investments in the Bulgarian industrial and residential automation sector remain limited in terms of both frequency and scale. To be sure, a couple of small wholly-owned foreign affiliates, that is HBV and Schirris, have recently been established in order to sell various industrial automation products in Bulgaria. In addition, Systematics presently compete against four international joint ventures, that is against Chimex, Isotech, Pomagalski, and TCC.

Worthy of noting, it appears that most foreign investors continue to seek the cooperation of local firms in this East European country (see TABLE No I.2 and TABLE No I.3). Moreover, the historical country-specific experience seems to matter even at present, as five of the seven foreign subsidiaries that existed in Bulgaria in 1986 (that is Systematics, Chimtrade, Fanuc-Machinex, APV-Bioinvest, and Sofia-Mitsukoshi) are currently leaders among the affiliates of international companies in the respective sectors of the Bulgarian industry.

In general, the characteristics of international business activity in East Europe have obviously undergone a considerable evolution. In addition, the patterns of western business involvement in this region seem to be crucially influenced by certain conflicting institutional pressures in a complex and interconnected manner.

On the one hand, the radical transformation of the institutional structures in East Europe has accelerated the growth in international business activity there. On the other hand, the development of the various key elements of foreign business involvement in the East European countries appears, by and large, to be delayed by the inherent institutional inertia of these countries which, in turn, seems to be closely associated with their common totalitarian past (see Appendix No 1 and Appendix No 2).

In particular, the joint venture mode of organization is still more popular than the independently-owned subsidiary mode of organization of international business activity in the region even

at present (see TABLE No I.2. and TABLE No I.3.). Besides, western companies which have managed to accumulate certain experience in East Europe have turned out, despite the sweeping changes of socio-political structures, government policies, local legislation, and principles on which economy is based, to be much more successful than the majority of the newcomers in building strong market positions in the region (Apostolov, 1991).

In other words, it can be presumed that the institutional environment and cultural norms continue to have a crucial impact on the patterns of foreign business involvement in the East European countries. Interorganizational relations constitute the main mechanism through which the institutional factors influence the characteristics of international business activity in these countries.

Furthermore, it is logical to expect that the ways of doing business in East Europe should change, as this region becomes less and less isolated from the rest of the world. Global changes like the emergence of "transnational corporations" (Bartlett and Ghoshal, 1989), the rise of high-technology entrepreneurship (Horwitch, 1992), and growing equalization of transactional characteristics, that is acceptance of standard ways of economic behavior in particular transactional situations (Williamson, 1985) can hardly be ignored by East European business analysts today. That is why, it may be theorized that characteristics of the competitive environment and possession of strategic capabilities, as well as current transactional characteristics can influence the

patterns of foreign business involvement in East Europe. Interconnected changes at the firm level and specific transactional arrangements at the functional level constitute respectively the mechanisms through which strategic and transactional factors make an impact on the features of international business activity in this region.

Hence, I believe that, in order to analyze and understand the changes (taking place at the interorganizational, firm, and functional levels of aggregation) in the ways of doing business in the East European countries, it is necessary to consider the role of the relevant institutional, strategic behavior, and transaction cost factors. I presume, however, that the institutional explanation of the patterns of foreign business involvement in East Europe is more adequate than the respective strategic behavior and transaction cost propositions, since the institutional determinants seem to have greater influence on the organizational processes of locally-based subsidiaries, headquarters-subsidiary relations, and adaptation of foreign affiliates to the local context than the strategic and transactional factors.

In addition, it can be theorized that multiple and often conflicting pressures on the business activities of foreign subsidiaries in East Europe lead to both increasing integration in global activities of the international parent companies and deepening embeddedness in the local context.

I.2. Research methodology.

In order to address meaningfully the main research issues of this thesis, I need a methodology that allows for robust understanding of the actual organizational processes at selected affiliates of international firms, the evolving headquarters-subsidary relations, and the adaptation of the local subsidiaries to the particular immediate business environment. That is why the research methodology, used in this dissertation, is based on longitudinal case studies.

The primary data was collected during five months of field research in Bulgaria. This East European country has been selected for several major reasons. Firstly, Bulgaria is in some worth-mentioning ways an average and, therefore, representative country of the region. The current transformation of the Bulgarian society is slower than the dynamic social processes taking place in Hungary, Czechoslovakia, and Poland, but faster than the present social changes in Rumania, Yugoslavia, and Albania. Secondly, Bulgaria was among the first East European countries to adopt foreign investment regulations (Decree 535 of March 31st, 1980), legitimizing actually all forms of international business involvement, including independently-owned foreign affiliates. Thirdly, the analysis and understanding of the complex and dynamic subject of this study, that is the interorganizational headquarters-subsidary relations and intra-organizational processes in local subsidiaries that are embedded in specific cultural context, require in-depth empirical knowledge of the

economic mechanisms, social processes, government policies, and culture of the country in which the respective foreign affiliates are domiciled. Naturally, Bulgaria is the East European country I am most familiar with. Besides, I, being a native Bulgarian, speak the language of this country, and I have close contacts with many people who occupy positions of key-importance in local companies, government agencies, and political organizations.

The main sources of data were a series of participant observations and personal interviews conducted on the premises of the Bulgarian subsidiaries of Honeywell Inc. (Systematics Co.), the Dow Chemical Co. (Chimtrade), and Fanuc Ltd. (Fanuc-Machinex Co.). These three affiliates of international companies have actually constituted the research sample. This sample size is considered sufficient since it includes a substantial part of the population of foreign subsidiaries existing in Bulgaria five years ago (TABLE No I.1). Besides, Systematics, Chimtrade and Fanuc-Machinex are still in business at present. These three firms are, worthy of noting, among the oldest four foreign affiliates in that East European country. Moreover, Systematics, Chimtrade, and Fanuc-Machinex are the biggest Bulgarian-based subsidiaries of international companies in terms of both overall revenues and personnel size.

The research sample has also the property of being diverse in several important respects: nationality of the parent companies; the type of industry in which the selected subsidiaries do business; and the level of personal involvement of the top managers

of the respective international companies in the affairs of the local affiliates. In greater detail, Systematics and Chimtrade have American parent companies, while Fanuc-Machinex has a Japanese parent company; Systematics and Fanuc-Machinex are involved in "growing" industries, while Chimtrade does business in a "maturing" industry (following the terminology introduced by Arthur D. Little); Mr. Frank Popoff (the President and CEO of the Dow Chemical Co.) and Mr. Seiueemon Inaba (the President and CEO of Fanuc Ltd.) have been personally involved in the affairs of, respectively, Chimtrade and Fanuc-Machinex on several notable occasions, while Mr. James Renier (the Chairman of the Board and CEO of Honeywell Inc.) has never been directly involved in the settlement of issues concerning the activity of Systematics. Therefore, the composition of the research sample provides for the ability to make cross-sectional generalizations regarding the specific content and overall orientation of the patterns of international business activity in the selected East European country.

In addition, the respondents were asked to give information not only of the present business position of their firms, but also of the particularities of the state of the business affairs of those firms of five years ago. Hence, it became possible to follow closely the significant changes for the last five years in the Bulgarian-based subsidiaries of international companies.

Furthermore, the cases have been structured using a scheme which is considered neutral with regard to any theory. More specifically, the main elements of the equity-based foreign

business involvement in the selected host country (organizational structure, transfer of personnel, transfer of technology, and transfer of business operations) have been described in each case taking advantage of the collected longitudinal data. This way, the specific characteristics of the patterns of foreign business involvement have become clearly delineated. This scheme of case development has also the advantage of facilitating the subsequent data interpretation within the Global Integration/ Local Responsiveness framework at three distinct levels of aggregation: the interorganizational, the firm, and the functional level.

Moreover, the application of the Global Integration/ Local Responsiveness framework to this study makes it possible not only to put a meaningful theoretical interpretation on the specific content of the patterns of international business activity in the selected East European country, but also to determine the general orientation of these patterns. In fact, the general orientation of the patterns of foreign business involvement in Bulgaria is easily mapped out with due account to the established changes at Systematics, Chimtrade, and Fanuc-Machinex along the critical two dimensions: global integration and local embeddedness. In greater detail, the changes in terms of global integration are measured taking into consideration the longitudinal data on the coordination between the organizational mechanisms of the subsidiary and the organizational mechanisms of the international parent company; the incorporation of personnel of the subsidiary in global management system of the international parent company; the technological

intensity (that is, the extent to which the technological basis of the national affiliate consists of technologies specific for the respective parent company); and the integration of the functional operations of the subsidiary in global business operations of the international parent company.

The changes in terms of local embeddedness are in turn measured on the basis of the longitudinal data on the adaptation of the organizational processes of the subsidiary to the characteristics of the immediate business environment; the adoption of personnel policies by the subsidiary with due account to professional qualification, industrial skills, and supply of local labor; the effective transfer of technology to local companies; and the carrying out of functional operations which enhance local industrial capabilities.

In addition, it should be mentioned that I make use of an unified terminology in this thesis. That is, all kinds of companies involved one way or another in international business: global, multidomestic, transnational, multinational, etc. are referred to as just "international companies". This level of abstraction is necessary since what these companies essentially do is international business. Besides, equity-based international business activity and foreign business involvement, as well as, equity joint ventures and joint ventures are, respectively, deemed to represent identical things. Foreign subsidiaries are, however, considered not only in the form of independently-owned affiliates, but also in the form of international joint ventures.

TABLE No I.1

INTERNATIONAL JOINT VENTURES THAT BECAME
OPERATIONAL IN BULGARIA BETWEEN 1983 AND 1986

FOREIGN COMPANY/ COUNTRY	LOCAL COMPANY
1. APV/ UK	Bioinvest
2. Dow Chemical/ USA	V e r i l a , Chimimport, Chimcomplect
3. Fanuc/ Japan	Machinoexport, ZMM, Isotimpex
4. Honeywell/ USA	Systemchim, Chimimport, Chimcomplect
5. Mitsukoshi AND Mariuchi/ Japan	SO Pirin
6. Sormel/ France	Machinoexport, KAM
7. Tangra/ Switzerland	Chimimport

TABLE No I.2

FOREIGN INDEPENDENTLY-OWNED SUBSIDIARIES ESTABLISHED IN BULGARIA
BETWEEN JANUARY 1988 AND JANUARY 1991

NAME OF COMPANY	COUNTRY OF ORIGIN
1. Adolf Hobby	Germany
2. American Environmental Systems	USA
3. Atlas Consult	Belgium
4. Biocor	Lichtenstein
5. Brelco	UK
6. Cargo Control Consulting	Switzerland
7. Comco	Austria
8. Corpex	USA
9. Eagle International	Austria
10. Data Brain	Lichtenstein
11. Farris	UK
12. Filmour	Austria
13. Giss Trading	Germany
14. HBV Maschinen	Germany
15. Inter-Technology	Lichtenstein
16. JES International	Singapore
17. JIK	Belgium
18. Konnie	Austria
19. Kuffus Import-Export	Germany
20. Mega Service	Lichtenstein
21. Nellon	Switzerland
22. Nespa	USA
23. Nike Sport	Italy
24. Ostermalms Stad	Sweden
25. Ost-West Kommercial	Germany
26. TKM	Germany
27. Turkal	Turkey
28. Turkmen Ost	Lichtenstein
29. Sijib	Italy
30. Schering	Germany
31. Schirris	Lichtenstein

TABLE No I.3

INTERNATIONAL JOINT VENTURES ESTABLISHED IN
BULGARIA BETWEEN JANUARY 1988 AND JANUARY 1991

FOREIGN COMPANY/ COUNTRY	LOCAL COMPANY
1. ABG/ Austria	Bulbank
2. Balkan Holidays/ UK	Balkantourist
3. Big Gulden/ Germany	Medical Systems
4. Billy Bros/ UK	Nefchim
5. Biomedica/ Austria	Technologiya
6. Chemflake/ UK	Chiminvest
7. Chimex/ Austria	Electroimpex
8. Cimex/ Belgium	Metalchim
9. Closseri AG/ Switzerland	FBNMV-Shumen
10. Curlis Instruments/ USA	Balkancar
11. Deltacom Systems/ UK	Machinoexport
12. Eleurgia Varis/ Greece	Bulgarsko Pivo
13. Festo/ Austria	Machinoexport
14. Foster/ Italy	Maritsa-Plovdiv
15. Hand Tools Engineering/ Italy	Montaj
16. Horst Rabus/ Austria	Balkantourist
17. Huber/ Austria	Balkantron
18. IGM/ Austria	Industrialinjinering
19. Isotech/ Australia	Klimatichna Technika
20. Landesman/ Austria	Hranexport
21. Kolokotronis/ Cyprus	Djesma
22. Malearis/ Greece	SRB
23. Maruichi/ Japan	Technika
24. Pergamon Media/ UK	Kinematografia
25. Perkins/ UK	Vamo-Varna
26. Polak/ Poland	Tsvetya
27. Pomagalski/ France	Radomir Metal
28. Procep/ Greece	Akvakor
29. Professional Geo-physics/ USA	TP Insist
30. Rikki Manufacturing/ UK	Radomir Metal
31. Schmit-Anherger/ Germany	SO MAT
32. TCC Computer Communications/ Germany	Asecs
33. Turkmen/ Lichtenstein	Sungurlarska Dolina
34. UIG/ France	Metalni Konstruktsi
35. WTM/ Germany	Metalchim

CHAPTER ONE: THEORY OVERVIEW

1.1. General overview.

The Global Integration/ Local Responsiveness paradigm plays a critical role in international business studies today. The underlying premise of this research paradigm is that international firms must be both globally integrated and locally responsive in order to meet successfully the multiple challenges in their business environment. In other words, the most distinctive property of the Global Integration/ Local Responsiveness paradigm is that it explicitly recognizes the need for integrative optimization between multiple and often conflicting pressures in a business. Studying the evolving balance across apparently conflicting demands is seen as more important than studying the management requirements created by one element of the business at a time.

This integrative research framework provides a way of capturing the pressures on a given foreign subsidiary -- pressures that make global coordination and integration of activities, as well as being sensitive to the diverse demands of the local market critical. Besides, all factors that contribute to the pressures for global integration and local responsiveness at the interorganizational, firm, and functional levels of aggregation, such as the importance of multinational customers, presence of

multinational competitors, investment intensity, technological intensity, products and services that meet universal needs, access to raw materials and energy, differences in customer needs, differences in distribution channels, availability of substitutes, market position of local competitors, and host government demands are considered simultaneously. Substance and process in international business activity are also examined together and the underlying business characteristics can, hence, be meaningfully identified. Moreover, the same research framework may be used to examine both the changing nature of a subsidiary's business and the impact of the forces that contribute to the integration and responsiveness on various key functions within this foreign affiliate.

Furthermore, the basic unit of analysis within the Global Integration/ Local Responsiveness framework is the real manager, rather than a lifeless abstraction. Thus the primary purpose of international business processes, including specific administrative tools and decision-making culture, can be conceptualized as influencing the mind sets or the cognitive orientation of managers (Doz and Prahalad, 1991).

Therefore, the Global Integration/ Local Responsiveness paradigm can be used in this thesis both cross-sectionally and longitudinally to analyze and understand the complex impact of the conflicting interorganizational and intra-organizational pressures on the specific content of the patterns of international business activity in Bulgaria. It can also provide an opportunity for the

observation, analysis, understanding, and mapping out of the general orientation of the patterns of foreign business involvement in this East European country. In addition, the Global Integration/Local Responsiveness framework may allow for meaningful interpretation of the actual organizational processes, headquarters-subsidiary relations, and adaptation to the local context of Systematics, Chimtrade, and Fanuc-Machinex at the three critical levels of aggregation: the interorganizational, the firm, and the functional level. As such it appears to be a useful link between descriptive analysis and theoretical basis.

Actually, the Global Integration/Local Responsiveness paradigm follows in spirit the work of early international business scholars, like Perlmutter (1969), Fayerweather (1960) and Wilkins (1970), who developed organizational process categories, identified the essential tension between fragmentation and unity in managing international companies, and built an argument that international business studies can be strengthened by a more systematic grounding in organizational theory (Doz and Prahalad, 1991).

But it was Prahalad's research (1975) on the processes by which the management of subsidiaries of international companies perceived changing environmental demands and responded to them by refocusing the strategic orientation and realigning power and influence processes that, in effect, constituted the conceptual foundation of the Global Integration/Local Responsiveness paradigm. That integrative framework was further developed by Doz (1976, 1979), who analyzed the management processes used in several

companies to manage tension between economic and technological pressures for global integration and host government demands for local responsiveness, and by Bartlett (1981, 1986), who studied how what he called "institutional heritage" of the firm constrained the development of new capabilities and constituted a form of "organizational inertia" that top management has to take into consideration. Finally, the research of Prahalad and Doz (1987), Bartlett and Ghoshal (1989), as well as, Hamel and Prahalad (1990) led to wide-spread recognition of the methodological usefulness of the Global Integration/ Local Responsiveness framework for international business studies.

Worthy of noting, one of the most distinctive features of this integrative research framework which has significantly contributed to its growing popularity is that it allows for reasonable flexibility as far as the composition of the set of integrative concepts to be applied to a given study is concerned. In particular, the integrative concepts which are used in this thesis in order to put a meaningful theoretical interpretation on the patterns of foreign business involvement in Bulgaria have been drawn on the institutional, the strategic behavior, and the transaction cost schools of thought. This set of integrative concepts provides for both reasonable diversity of research points of view and ability to examine elaborately the comprehensive changes at the interorganizational, firm, and functional levels of aggregation, taking place at Systematics, Chimtrade, and Fanuc-Machinex, between these three subsidiaries and their respective

international parent companies (Honeywell, Dow Chemical, and Fanuc), and between the selected foreign affiliates and the local context.

More specifically, the institutional analysis gives a most helpful theoretical basis for scholars to study subunit adaptations to various corporate management systems and to differentiated local environments (Ghoshal and Westney, 1991). By showing that some of the most interesting institutionalization processes may occur in organizations that straddle several fields (Zucker, 1987), institutional theory is also consistent with the observation on the part of international business scholars that management processes in international companies both hold the most fruitful research promises and raise the most difficult managerial issues. Moreover, institutional analysis is clearly consistent in spirit with the clinical studies on the organizational adaptation of international companies to diverse types of multinational environments (Prahalad, 1975; Doz, 1976, 1979; Bartlett and Ghoshal, 1989), as well as, on the possible organizational implications of addressing global integration pressures and national responsiveness demands at multiple levels of aggregation -- from the individual to the interorganizational level (Scott, 1987).

The strategic behavior school offers a useful theoretical basis for researchers to study the relationship between strategy and various management systems at the firm level (Chandler, 1962; Lawrence and Lorsch, 1967; Mintzberg, 1979). In particular, it is increasingly used by international business scholars to examine the

changing strategy and organization of international companies in the face of growing global competition. Thus, three major evolutionary types of international companies have been distinguished -- companies, whose strategy and organization are multidomestic (in which national subsidiaries focus on their local markets, carry out production and marketing activities locally, and have a significant measure of autonomy from headquarters); global companies, which concentrate their production and administrative activities in one location (usually the home country) in order to reap the cost and control advantages of economies of scale; and international companies that actually combine elements of the strategies and organizations of both the multidomestic and the global, that is, the transnational (Bartlett, 1986; Bartlett and Ghoshal, 1989), the multifocus (Prahalad and Doz, 1987), or the heterarchical companies (Hedlund, 1986).

The transaction cost analysis provides a powerful point of departure for analyzing choices between organizational patterns at the functional level and can, hence, be used to establish the efficient boundaries of international companies (Hennart, 1982; Buckley and Casson, 1986; Teece, 1986; Dunning, 1988). Besides, the transaction cost analysis has proved useful in analyzing specific types of interorganizational relationships between U.S. firms and their suppliers (Masten, 1984), intra-organizational relationships and, in particular, vertical integration (Monteverde and Teece, 1982; Stuckey, 1983), as well as joint ventures with rigorous constraints on the nature of the equity-based interorganizational

arrangements (Hennart, 1988).

1.2. Overview of the basic institutional concepts.

The institutional school has mostly been focused on issues at the interorganizational level of aggregation, such as the characteristics of the total socio-cultural system (in particular, the mechanism of social isomorphism), role of various institutions, processual nature of institutional interactions, current transformation of the "cultural man", exercise of institutional interests, evolution of property rights, and significance of power-networks. A central place in the writings of all institutionalists is occupied by the notion of the comprehensive socio-cultural system which itself is an institution and consists of a multitude of institutions (Veblen, 1919; Clark, 1936; Dewey, 1939; Ayres, 1944; Galbraith J.K., 1958; Gruchy, 1987). In addition, all socio-cultural systems are presumed to be holistic in nature. This means that a socio-cultural system, whether it be a total society or a total economic system, is made up of a number of parts that together constitute the whole totality of the system, which is more than the simple aggregate of the individual constituent parts (Dewey, 1939; Myrdal, 1956; Lindblom, 1977; Gordon, 1980; Scott and Meyer, 1983; Zucker, 1986; Gruchy, 1987).

Besides, the institutional school accepts that there is, on one hand, a link between the evolution of the total socio-cultural system and the changes in its components (Clark, 1936; Gruchy, 1987; Tolbert, 1988; Powell, 1988), as well as a relationship

between the characteristics of the whole system and the specific features of the embedded in it subsystems, that is socio-cultural isomorphism, on the other hand (DiMaggio and Powell, 1983, Zucker, 1988, Mayer et al., 1988). In particular, the institutionalists argued that there is a cause and effect link between the degree of heterogeneity of the environment and the level of organizational diversification of the related constituent parts of the total socio-cultural system (Meyer et al., 1988).

Furthermore, an institution is taken to be a grouping of people with some common behavior patterns. Institutionalists accept that it is not very appropriate to reify institutions in the sense of thinking of them as buildings or just groups of people. The essence of institutions is rather in the commonly held behavior patterns. In this sense, Commons (1934) has defined an institution as "Collective Action in Control of Individual Action".

The basic characteristics of institutions are that they are (1) static, (2) inherited from the past, (3) past-glorifying, (4) psychologically defensible, (5) imperious, and (6) creatures of habit (Gordon, 1980). Institutions can also be formal or informal. One institution may have its rules of behavior established over many decades in a manner that never involved any actual group consideration of the rationale of its patterns, while another may have been set up by law and endowed with a specific set of rules by some legislative body.

The institutionalists postulate that developments in the socio-cultural system are conditioned by the prevailing cultural

habits of the nation. But the direction and content of social processes are essentially dependent on the comprehensive interaction of rational knowledge, resources, and institutions.

The basic views of institutionalists incorporate also the adoption of the processual rather than equilibrium paradigm (Veblen, 1919; Dewey, 1939; Ayres, 1944; Tool, 1979; Stanfield, 1979; Gordon, 1989; Nelson and Winter, 1982). So, the institutionalists' frame of reference is non-idealistic and involves looking at the social order as an ongoing process as well as understanding of what the social process is all about.

Actually, the institutional school has arrived at the processual paradigm by incorporating the contributions of the cultural anthropologists and the pragmatic philosophers. Thus, drawing upon his extensive reading in the field of cultural anthropology, Veblen (1919) has asserted that what was needed in economics was a theory of the economic process, of the unfolding economic sequence (Veblen, 1919).

In addition, a major contribution of cultural anthropologists, adopted by the institutional school is the concept of the cultural man (*homo culturalis*) as opposed to the earlier concept of the rational man (*homo economicus*). The behavior of *homo culturalis*, while reflecting the use of some reason, is nevertheless thought to be decisively influenced by the culture in which this individual is placed.

The institutionalists have, however, gone a step further than the cultural anthropologists, and they have introduced a new

version of the cultural man, that is, homo institutionalist: the individual who lives in a pluralistic world where various economic, political, and other social groups, whose objectives are frequently incompatible, are competing for his allegiance (Ayres, 1944).

Besides, the institutionalists do not believe that socio-cultural evolution is always linear and in the direction of improved institutional arrangements. They are, in fact, realists who claim that where social evolution goes depends essentially on the exercise of institutionalized interests. In addition, the economic interest is considered to be just one of several interwoven interests guiding the course of human activity (Myrdal, 1956; Lindblom, 1977; Gruchy, 1987; DiMaggio, 1988). Consequently, power and conflict have been recognized as prominent features of the socio-cultural system, and various institutionalized interests, depending on the particular situation, have been assigned the highest priority for influencing the orientation and specific content of social evolution (Berle, 1938; Ulmer, 1971; Coleman, 1974; Lindblom, 1977; Wrong, 1980; Herman, 1981; DiMaggio, 1988). Moreover, the institutionalized interests are regarded as basic constituencies of the comprehensive power-networks that are respectively assumed to make, in the context of the specific property rights, a crucial impact on the whole socio-cultural system (De Alessi, 1980; Stark, 1990; Sajo, 1990; Seleny, 1991).

Furthermore, the market subsystem is, according to the institutional school, only one institution that throws light upon how the economic system operates. Many institutions that influence

the course of economic activities operate outside the market subsystem, and so a broad interpretation of these activities should go beyond the functioning of production, distribution, and consumption (Tugwell, 1924; Mitchell, 1949; Stanfield, 1979; Klein, 1980; Gordon, 1980; Gruchy, 1987). Essentially, the economic system, being embedded in the larger societal process, has been examined in its interaction with the other sectors of the socio-cultural system with the result that a full explanation of economic problems requires reference to the non-economic sectors of society (Veblen, 1919; Ayres, 1944; Galbraith J.K., 1967 and 1983; Lindblom, 1977; Gruchy, 1987; Zucker, 1988).

1.3. Specific applicability of institutional theory.

The complexity and dynamism of socio-cultural processes, including business activity, in East Europe have recently drawn the attention of some institutionalists (Stark, 1990; Sajo, 1990; Szelenyi, 1991, Seleny, 1991). For instance, Stark (1990) has studied the particularities of the transition from centralized planning to market economy in Hungary. According to him, the legacy of the communist type economic practice is still present in that East European country, as the former "political bourgeoisie" has skillfully managed to transform itself into "economic clan".

The impact of the power-networks on the orientation and specific content of the socio-cultural evolution in East Europe has also been accentuated by Sajo (1990) and Seleny (1991). In

particular, Seleny (1991) has examined the link between the transformation of the former nomenclatura, that is the political elite, into a "new class based on economic capital" and the transition of property rights in state and private sectors in Hungary. Her argument rests on the premise that the former state actors, faced with the potential loss of effective power and property rights in the new market game, have taken advantage of their privileged position and the persistence of the socialist power-relations in order to consolidate their previously diffused property rights. Besides, the state elite is assumed to use political bargains, that is the connections at the top of the high vertical hierarchy of the state bureaucracy, for forging horizontal relations of high personal and professional trust at the business enterprise level. Hence, the former nomenclatura in Hungary has turned out to influence not only the direction and substance of the transition of property rights, but also its own transformation into a new propertied class. Moreover, the business activity in that East European country has appeared to be characterized by particularities, which could be explained only if the means available to institutional actors (in the context of the existing institutional structure) were taken into account.

Furthermore, the institutional analysis could be used to put a meaningful interpretation on the characteristics and evolution of the mode of organization of East-West business enterprises in Bulgaria. Essentially, it is logical to anticipate from the institutional point of view that, when the successful economic

performance of companies, including international firms, in the East European country was contingent on the preferential treatment by the central government, which strictly controlled the activity of all important economic associations, as well as, the access to local distribution channels and sources of supply, the international companies would likely, provided that they were interested in the Bulgarian market, seek cooperation with influential local partners as a practical way of establishing strong and mutually-rewarding interconnections with the ruling communist elite. In fact, the international companies which wanted to take advantage of the opportunities that existed in the Bulgarian economy at that time (e.g. financial security, preferential conditions, and close ties with the other East European economies) tried almost invariably to enter the Bulgarian market through a joint venture with a suitable local partner.

In addition, the transformation of the former elite groups and, subsequently, the emergence of new power-networks (which have clearly been interested in modifying on market principles their relations with the environment in order to become able to exercise more effectively their currently direct property rights) have eventually led to an increase in heterogeneity of the Bulgarian socio-economic system (Appendix No 1 and Appendix No 2). Under such conditions, it is logical for the institutionalists to expect that the local subsidiaries of international companies must adopt more and more frequently the independently-owned mode of organization in order to optimize the level of economic performance (see TABLE

No I.2. and TABLE No I.3.) -- after all, joining presently forces with potentially unstable local companies can be dangerous. So, the institutional school can offer a reasonable explanation of both the exclusive use of the international joint venture mode of organization by the Bulgarian subsidiaries in the past and the present changes in the mode of organization of the Bulgarian-based affiliates of international firms.

1.4. Overview of the basic strategic behavior concepts.

Strategic behavior theories have highlighted the importance of such issues, critical for the success of the firm in the long run, as the role of corporate and business strategy, significance of the firm's competitive position, link between strategy formulation and implementation, relationship between strategy and structure, possession of complementary assets, compatibility between cooperating companies, and benefits of cooperative alliances. Strategic behavior analysis has, in the first place, accentuated the role of strategy as the mediating factor between the characteristics of the business activity of the firm and its environment (Chandler, 1962; Lawrence and Lorsch, 1967; Andrews, 1971; Mintzberg, 1972, 1979, 1988; Aldrich and Pfeffer, 1976; Hofer and Schendel, 1978; Miles and Snow, 1978; Porter, 1980, 1985; Quinn, 1980; Hax and Majluf, 1984; Horwitch, 1992). It is assumed that the characteristic features of the business environment (Lawrence and Lorsch, 1967; Andrews, 1971; Mintzberg, 1972; Hax and Majluf, 1984) and the firm's relative position vis-a-vis the

current competitive forces (Porter, 1980, 1985; Gilbert and Strebel, 1988) have a profound effect on strategy formulation and implementation. Besides, the strategic behavior school has, following the popularized by Porter (1980) concept of competitive strategy, contended that there are five external factors of major strategic importance for every firm: suppliers, customers, present rivals, new entrants, and substitutes.

Furthermore, strategic behavior theories have looked upon strategy formulation and implementation as an organizational process that is in many ways inseparable from the structure and culture of the company in which it takes place (Chandler, 1962; Waterman, Peters and Phillips, 1980; Hax and Majluf, 1984). Hence, changes in the firm's strategy are assumed to make a crucial impact on the characteristics of the organizational structure of this company (Chandler, 1962; Hofer and Schendel, 1978; Mintzberg, 1979; Galbraith J.R., 1988).

In addition, the success in competition is presumed to be contingent on having effective access to a whole gamut of complementary assets. So, a company with superior technology should also have modern manufacturing capabilities, a comprehensive sales and distribution network, and some other complementary intangible assets in order to meet successfully the challenges of competition. Securing control of complementary assets is, therefore, likely to be the key success factor, particularly when they are available in limited supply. Moreover, the simultaneous utilization of a range of complementary assets can produce important cumulative effects

that might become an additional source of competitive advantage (Contractor and Lorange, 1988; Horwitch, 1992).

To be sure, the firm may choose to build independently all complementary assets that it would ideally like to control. Alternatively, the company could attempt to access the needed assets through collaborative arrangements. Cooperation rather than internal integration is likely to be the optimal strategy for a company when contributions of collaborating companies are balanced (Daniels et al., 1985), and partners are not only different, which can provide a rationale for cooperation, but also compatible in some important respects.

For instance, some of the recent strategic behavior literature (Porter, 1986; Harrigan, 1985, 1986, 1988; Daniels et al., 1985; Hamel & Prahalad, 1988; Contractor & Lorange, 1988; Hladik, 1988) has emphasized the importance of partners' compatibility in terms of characteristics like long-term goals and perspectives, the nature and scope of company's assets, the range of critical markets served, the attitude to risk and uncertainty, cultural ethos, technological sophistication, etc. In particular, Harrigan (1985, 1986) has argued that cooperative ventures are more likely to be used as an organizational mode of capital transfer, including across national borders, when partners possess not only complementary resources, but also complementary missions that can eventually create a strategic fit. Moreover, cooperation agreements may fail for too big asymmetries between the parties. Empirical results (Harrigan, 1988) suggest that cooperative ventures last

longer between partners of similar cultures, venturing experience, and asset sizes. Hladik (1988) has also contended that similarities between companies are important factors for the ultimate success of their cooperation agreements because, for instance, if the partners are comparable in terms of technological sophistication, they are more likely to deal constructively with each other (Hladik, 1988).

Furthermore, cooperating with other firms, the company may enjoy opportunities, in addition to the use of valuable complementary assets, which will otherwise be unavailable to it like risk reduction, economies of scale and/or rationalization, and co-opting or blocking competition (Contractor & Lorange, 1988).

Cooperative alliances can reduce partners' risk by (1) spreading the risk of a large project over more than one firm; (2) enabling faster entry and pay back; (3) enabling diversification in a product portfolio sense (Stopford and Wells, 1972).

Besides, companies which take part in cooperative arrangements could specialize in the production of certain items. This way, individual value-adding operations can effectively be transferred to the location which enjoys a higher comparative advantage. But, there also is an additional advantage. Because volume in the more favorable location is now higher, further reduction in average unit cost is possible due to economies of larger scale. Besides, in many situations, particularly in more mature industries, there may be excess manufacturing capacity. A cooperative venture can then be a practical approach for achieving production rationalization

(McConnell & Nantell, 1985). This is also called cost-subadditivity benefit: the cost to the partnership is less than the cost to individual parties if the entire investment is undertaken by each firm alone (Contractor & Lorange, 1988).

Potential or existing competition can be co-opted by forming a cooperative alliance with the competitor (Telesio, 1979). This is, in essence, a defensive strategic move. On the other hand, a cooperative agreement may be reached in pursuit of more offensive objective, e.g. to put pressure on the profits and market share of an important competitor in its home market (Hout, Porter and Rudden, 1982).

1.5. Specific applicability of strategic behavior theory.

The impact of the changes in competitive environment and the effectiveness of strategic capabilities of western companies on the characteristics of East-West joint business enterprises has been recently examined by various strategic behavior scholars (e.g. Daniels, Krug and Nigh, 1985; Morton, 1988). For instance, Daniels et al. have studied the patterns of western business involvement in China. Their argument is to a great extent based on the premise that international firms, faced with growing global competition, could not ignore a quarter of the world's population. Besides, it is contended that these companies possess significant strategic capabilities and that their behavior is essentially influenced by globally-oriented strategic objectives. In brief, the international firms could not afford to let competitors preempt them in the

Chinese huge market, since the sales in China are necessary in order to provide funds for promoting business activities in other countries.

Furthermore, Daniels et al. (1985) focus on the motives for, respectively, the western and Chinese partners to set up joint business enterprises and the role of the attendant risks for selecting the joint venture form of cooperation.

According to the results of the study, all western investors in China are large companies with average sales of \$4.7 billion, and all of them are heavily dependent on foreign operations with their foreign sales being, on the average, more than 30 percent of their respective total sales. So, it is assumed that western firms are willing to get involved in joint business enterprises in China because of globally-oriented strategic considerations. As far as the Chinese are concerned, they, according to Daniels et al. (1985), choose to participate in East-West joint business enterprises mainly for two reasons: better access to technology and better access to foreign markets.

In addition, it is contended that international firms usually go from exporting or licensing to joint ventures, and then to direct investment in order to minimize the exposure to the attendant risks. Thus, Daniels et al. (1985) have explained why the foreign direct investments in China are still relatively small in comparison to the volume of western investments in international joint ventures, based in that country.

Morton (1988) has also studied East-West joint business

enterprises from the strategic behavior perspective. He bases a great deal of his reasoning on a hypothetical model, where the supply of potential western joint venture partners, possessing valuable strategic assets, interplays with the demand on the part of potential host countries, including the East European countries, for foreign investments in their economies. Morton (1988) emphasizes that western companies have ample strategic incentives to seek participation in international cooperative business enterprises in East Europe. On the other hand, he contends that the various national economic actors follow strategies oriented towards enhancing their reputation in international community, staying abreast of rapidly changing technological advances, tapping the creative power of their own people, and tapping the creative resources of other countries.

In greater detail, it is argued that the behavior of the big western companies in East Europe is essentially subordinated to their competitive global strategies, aimed at keeping the market share they have in each major market area, staying abreast of rapidly changing technology, expanding their market share in each major market area, developing operations in each major market area, obtaining the highest quality materials and components at the lowest delivered prices in each major market area, producing the highest quality products suitable for local markets at the lowest delivered price, and being alert to (and ahead of) any kind of competition.

Consequently, western firms are presumed to go shopping for

the "best deal" when making decisions related to the location of new R&D, manufacturing, assembly, or distribution facilities, while the East European countries are, in turn, hypothesized to compete against one another to make themselves attractive as potential locations for foreign investments. Moreover, Morton (1988) makes it clear that even such small countries, like these in East Europe, could sometimes become attractive sites for western investments, if they managed to create conditions for international companies to exploit effectively their strategic capabilities.

In addition, the basic strategic behavior concepts appear to be helpful for analyzing and understanding certain specific characteristics, like the recent changes in the mode of organization, of international business activity in Bulgaria. Thus, the pronounced predilection of western firms in the past for participation in East-West joint ventures in Bulgaria does not look surprising at all from the strategic behavior standpoint, since the involvement of Bulgarian partners has proved to be of critical importance for securing preferential treatment in the East European country at that time (Elenkov, 1985). Besides, it appears that the contribution of the Bulgarian partners to the success of the respective joint enterprises was comparable with the material (industrial equipment and inputs) and non-material (technology) contributions of the foreign partners.

That is, it can logically be presumed that the international firms that were interested in doing business in Bulgaria would likely choose to cooperate with a local partner in order to secure

active access to certain valuable complementary assets, which were available only in limited supply in the country. Moreover, it can be assumed that the strategic contributions of the business partners were reasonably balanced. So, the strategic behavior theory turns out to provide a sound reason for exclusively choosing in the past the international joint venture instead of the independently-owned subsidiary as a relatively more suitable organizational mode of business involvement of international companies in Bulgaria.

Furthermore, the notable increase of the number of independently-owned foreign subsidiaries in that East European country since 1989 can actually be related to the fundamental changes in the immediate competitive environment. In particular, it has proved that the involvement of local partners in the Bulgarian-based affiliates of international companies can no longer provide for the preferential treatment by the Bulgarian government (see Appendix No 2). In this sense, it may be assumed that the complementary assets, which the local companies can presently offer, would be of decreasing strategic value to the western firms. Besides, the equity-based cooperation with generally inexperienced in market competition Bulgarian partners may be a heavy strategic burden for the respective international companies in the context of the intensifying competition, including in the Bulgarian market. So, the strategic behavior theory appears to be helpful for putting a meaningful interpretation on the recent relative increase in Bulgaria of the popularity of the wholly-owned foreign subsidiaries

too.

1.6. Overview of the basic transaction cost concepts.

The focus of transaction cost theory is on transactional arrangements mostly at the functional level. In essence, transaction cost analysis is microanalytic, introduces and develops the economic importance of governance structures, costs of running the economic system, bounded rationality, opportunism and asset specificity, and relies on comparative reasoning. A common characteristic of this line of research is that the concept of the firm as a production function is replaced by the concept of the firm as a governance structure. Following Commons (1934), transaction cost scholars (Williamson 1975, 1979, 1981, 1985; Teece 1976, 1981, 1985, 1986; Teece, Pisano, and Russo 1987; Pisano and Teece, 1988; Buckley and Casson, 1976, 1988; Hennart 1982, 1988; Anderson and Gatignon, 1986; Beamish and Banks 1987; etc.) contend that the transaction is the basic unit of organizational analysis. Consequently, they maintain that many issues which at the outset appear to lack a contracting aspect turn out, upon scrutiny, to have an implicit contracting quality. Hence, any business issue can be investigated to advantage in transaction costs economizing terms. Transaction costs economies are realized by assigning transactions (which differ in their attributes) to governance structures (the adaptive capacities and associated costs of which differ) in a discriminating way.

Arrow (1969) referred transaction costs to costs of running

the economic system. Transaction costs emerge because there is a need to devote efforts to organizing, carrying out, and controlling transactions among interdependent actors. So, in essence, transaction costs are the economic equivalent of friction in physical systems.

Williamson (1985) has, in turn, suggested a more sophisticated interpretation that distinguishes between transaction costs of ex ante and ex post types. The first are the costs of drafting, negotiating, and safeguarding an agreement. Ex post costs of transacting can also take several forms. These include (1) the maladaptation costs incurred when transactions drift out of alignment in relation to the "shifting contract curve" (Williamson, 1985; Aoki, 1988). (2) the haggling costs incurred if bilateral efforts are made to correct ex post misalignments; (3) the setup and running costs associated with the governance structures to which disputes are referred; and (4) the bonding costs of effecting secure commitments.

Furthermore, any attempt to deal seriously with the study of economic organization must come to terms, according to the transaction cost school, with the combined ramifications of bounded rationality and opportunism in conjunction with a condition of asset specificity (Williamson, 1975, 1985).

Bounded rationality is a cognitive assumption. This is a form of rationality in which economic actors are assumed to be intendedly rational, but only limitedly so (Simon, 1961; Williamson, 1975).

Opportunism is assumed to be a subtle and pervasive condition of human nature (Knight, 1965). In essence, opportunism is self-interest seeking with guile (Williamson, 1985). More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse.

Marschak (1972) was among the first to recognize that assets can be idiosyncratic: There exist almost unique, irreplaceable research workers, teachers, and administrators, just as there exist unique choice locations for plants and harbors. Moreover, idiosyncratic assets might be transaction specific, that is their value in a given transaction can be higher than in their next best use. Such investments are, therefore, risky because transaction-specific assets cannot be redeployed without sacrifice of productive value. Besides, the higher the asset specificity, the more dependent the parties will be on each other, and the higher the costs of switching to another party will be. Asset specificity can, however, take on importance only in conjunction with bounded rationality and/or opportunism. Whenever assets are specific in nontrivial degree, increasing the degree of behavioral uncertainty makes it more imperative that the parties take steps to work things out. The interaction effects between behavioral uncertainty and asset specificity are, therefore, crucially important, according to transaction cost scholars, for understanding economic organization (Williamson, 1975, 1985; Teece, 1986; Pisano and Teece, 1988).

1.7. Specific applicability of transaction cost theory.

Transaction cost analysis has been applied by Hennart (1988) to the study of international joint ventures with rigorous constraints on the nature of the equity-based interorganizational governance structures. According to him, international joint ventures are used to acquire assets that are transaction specific and that can be shared at low cost level. A full takeover of the firm holding the transaction specific asset is considered prohibitively costly, if the firm to be acquired is large, if it operates in a different industry than the acquiror, or if it is based in a foreign country. In particular, the international firm that undertakes an acquisition might actually enter a new unrelated field, which could very likely increase the costs of negotiating, organizing, carrying out, and controlling the attendant transactions. Besides, if the international company decides to dispose of some unrelated activities, this company may have to accept some loss of asset value, since the assets to be traded are transaction specific.

Transaction cost concepts have also been used by Kogut (1986) to analyze the properties of governance structures of East-West joint business enterprises with due account to the costs associated with potential failures to appropriate returns on transferred technology, guarantee quality of production and maintenance of brand names, or avoid costly arbitration in the case of non-performance.

Kogut (1986) argues that western firms are interested not just in lowering the costs of transacting, but also in dealing effectively with the so-called enforcement problem, since it is the western partners, who have generally incurred the up-front investment in transaction specific assets. The eastern partners are respectively considered mostly concerned with obtaining efficiently some managerial and risk-shifting services by companies from industrially-developed countries. Such services have reportedly involved transfer of technology, provision of marketing information and assistance, and shift of the risks associated with price and sales volume variability from eastern to western partners. According to Kogut (1986), the demand for these services in the East could be explained by the structural weaknesses of the East European countries to trade in world markets. He saw such weaknesses in the slow rate of responsiveness to market changes, insensitivity to buyers' needs, and costly internal mechanisms of risk shifting. Consequently, it is assumed that the East European partners are faced with high-level behavioral uncertainty in world markets.

In brief, Kogut (1986) contends that East-West joint business enterprises should be organized through contracts which most closely replicate the benefits of intra-firm trade, as the enforceability of proprietary claims is virtually something inherent in intra-firm trade, and the provision of managerial and risk-shifting services can most effectively be done within the firm itself. In addition, he examines various forms of East-West joint

business activity, and in every single case he makes an assessment of the extent to which the properties of the used governance structure satisfy the criteria for efficient transacting. Note worthy, the co-production form of cooperation has been found to be the best solution for both eastern and western partners, since it facilitates the exchange of production know-how and marketing information; it protects eastern partners from direct exposure to fluctuations in unit demand (because payment is made in real goods); and it provides a sound guarantee against the enforcement problem, as any cessation of the respective transactions would render valueless the capital investment of the eastern partners.

As far as East-West joint ventures are concerned, Kogut (1986) accepts that they are the most direct channel of providing managerial and risk-shifting services. But he emphasizes that the enforceability of such transactions depends on the nature of the investment. When the value of the investment is based on a continuing and effective stream of western technology, the agreement is considered self-enforcing. When the investment is however one-time sunk cost, the western partner's interests are assumed to be exposed to ex post renegotiation.

Furthermore, the transaction cost theory appears to be useful for analyzing and explaining the dynamics of the mode of organization of international business activity in Bulgaria. Thus, it is logical to expect from the transaction cost standpoint and, in particular, from the point of view of the widely accepted "default" hypothesis -- lower level of internalization is

preferable until proven otherwise: Anderson and Gatignon, 1986 -
- that the international joint venture must be the preferred mode
of organization of foreign subsidiaries in Bulgaria in the past,
since the level of behavioral uncertainty is assumed to diminish
as companies stay together for some period of time (and, indeed,
all East-West joint ventures in Bulgaria were established by
companies, which had respectively dealt with each other before) -
- special language develops, and both institutional and personal
trust relations evolve (Williamson, 1985) -- or, as the cognitive
differences between the involved companies dwindle, e.g. due to the
progressive changes in the Bulgarian firms (see Appendix No 1 and
Appendix No 2).

Besides, the presumed lowering of the level of behavioral
uncertainty gives accordingly a strong reason to anticipate that,
because of considerations to increase the efficiency of economic
organization, independently-owned subsidiaries should not be very
popular as a mode of organization (and as a type of governance
structure in general) of international business activity in that
East European country even at present. Hence, the fact that the
international joint venture is currently the prevailing mode of
organization of the Bulgarian subsidiaries (see TABLE No I.2. and
TABLE No I.3.) makes it necessary to recognize that there is close
correspondence between some real-life characteristics of
international business activity in Bulgaria and the respective
predictions of the transaction cost school.

CHAPTER TWO: SYSTEMATICS (HONEYWELL BULGARIA)

OVERVIEW

The joint venture Systematics was established in 1984. It was the first affiliate of Honeywell Inc. in Eastern Europe and the third investment of a Western company in Bulgaria. In accordance with the joint venture agreement, the statutory capital of Systematics was split into 100 shares of equal value. Honeywell Inc. acquired ownership rights on 40% of the equity. The rest was divided among three Bulgarian companies: Systemchim (with a 40% share), as well as Chimimport Co. and Chimcomplect Co. (each with a 10% share).

Actually, the creation of Systematics was a consequence of, at least, three important developments. Firstly, as a result of its long-time direct business contacts with various Bulgarian organizations, Honeywell found that there was a profitable niche in the local service sector since there was no engineering organization in Bulgaria to provide integrated services for system automation. Secondly, Honeywell became convinced that there were some good specialists in Bulgaria in the fields of software development, computer-based system applications, and engineering services. So, the American company got interested in the establishment of a joint venture in Bulgaria which could become a

system-integrator to assist Honeywell's operations. For instance, Honeywell wanted to achieve a functional fit between its systems and the specialized equipment (in most cases, measuring and monitoring systems), manufactured by European companies like Lippke and Nellez. Since Honeywell did not produce such specialized systems, it had to purchase them from outside suppliers. The role of the system-integrator was then to develop customer-tailored software in order to secure the full compatibility and functional integration of the, otherwise, separate systems.

Thirdly, the Bulgarian Ministry of Chemical Industry, which used to control not only chemical, but also petro-chemical, pharmaceutical, pulp and paper, and some other industries in Bulgaria was put under growing pressure by the Economic Commission of the Central Committee of the Bulgarian Communist Party to respond to the call of the Thirteen Congress of BCP for "revolutionary upgrading of the industrial facilities in the country through rapid introduction of modern engineering products and automation systems". Consequently, Minister Pankov took personal responsibility to find a suitable solution, which could satisfy the demands of the top-level communist governing body. He organized a special committee at his ministry to study the possibility for pieces of technologically-advanced engineering equipment to be supplied to some of the plants and factories, subordinated to the Ministry of Chemical Industry, by manufacturers from the CMEA-member countries. The committee, however, found out that the engineering products and automation systems, which could

be purchased within the CMEA, were of generally low performance characteristics. Besides, none of the respective pieces of industrial equipment carried a famous brand name on it (which could have otherwise excused, at least partly, the lack of satisfactory operation). So, the Ministry of Chemical Industry was forced to look for help in the West. A list of likely suppliers of the needed control and automation systems was prepared, and Honeywell Inc. was, to be sure, at the top of that list.

Initially, Honeywell Inc.'s interests in Systematics were represented by Honeywell International Management (Austria). One year after the establishment of the joint venture, however, Honeywell Inc. transferred the responsibility for its Bulgarian operations to its regional office in Milan, Italy. Mr. Ferrari, who was the General Director of the Italian affiliate, was respectively given the authority to take decisions on behalf of Honeywell regarding the participation of the American parent company in the various business activities of Systematics. He, in turn, appointed Mr. Maselli, who was a Director of the regional office in Milan, to become formally a liaison manager as far as the contacts with the Bulgarian joint venture were concerned (TABLE No 2.3).

In addition, during the first several years of its existence Systematics failed to perform the functions for which it had been created: The joint venture neither became a system-integrator to assist Honeywell's operations nor contributed to the "revolutionary upgrading of the industrial facilities in Bulgaria". In fact,

Systematics' business operations were of small-scale (TABLE No 2.10) and narrow scope (TABLE No 2.5; TABLE No 2.6). Moreover, the joint venture was not involved in projects of great importance for Honeywell or the Bulgarian economy. Nevertheless, the parent companies appeared to be content with Systematics. Despite the strict restrictions to high-technology exports to the communist countries, Honeywell seemed to be inclined to transfer some fairly-advanced technologies to Bulgaria (TABLE No 1.8). On the other hand, the local authorities proved to be eager to reward the joint venture with many privileges.

Since the crucial events in the fall of 1989, the scope of Systematics business operations has increased both functionally and geographically (TABLE No 2.5; TABLE No 2.7). Besides, the joint venture has taken part in several very important for both Honeywell and Bulgaria projects. Eventually, the American parent company has transferred the responsibility for its involvement in Systematics back to Honeywell International Management (Austria). Mr. Nolden, who is a Vice President of Honeywell Europe and the General Director of the Central and East European operations, has respectively taken care of the control functions over the business activities of the Bulgarian affiliate. But the level of sophistication of Honeywell technologies, which have recently been transferred to Bulgaria, has decreased. In addition, personnel transfers from various Honeywell affiliates to Systematics have generally been negligible. The Bulgarian authorities have also ceased to provide some exclusive privileges to the joint venture.

2.1. Systematics in 1986

2.1.1. Organizational structure.

During the first several years of its existence Systematics was managed by a group of people, who were also senior officials at the Bulgarian Ministry of Chemical Industry, or the state-owned economic associations subordinated to that ministry (TABLE No 2.3). The General Director of the joint venture was Mr. Golemanov. He was recognized as a good technical specialist who had strong connections with the Bulgarian political elite. His position of a Department Manager at the Ministry of Chemical Industry made it possible for him to communicate directly with Mr. Tsibranski (the First Deputy Minister of that ministry) and Mr. Pirinski (the First Deputy Minister of the Bulgarian Ministry of Foreign Economic Relations). Worthy of noting, Mr. Tsibranski and Mr. Pirinski were very influential members of the Standing Commission of Monitoring Foreign Investments in Bulgaria that had been established as an adjunct administrative body to the Central Committee of BCP.

In addition, Mr. Golemanov had the reputation of an efficient administrator, who knew very well the economic mechanisms in Bulgaria. He was the chief promoter of the idea for Systematics to have only three organizational units: non-commercial functions, engineering services, and sales (TABLE No 2.1). Moreover, he personally selected the people to be appointed functional managers

at the joint venture. Consequently, Mr. Kotchev and Mr. Angelov, who occupied top-level management positions at Systemchim (the Bulgarian economic association that had monopoly over the local R&D and manufacturing of chemicals and bio-technological products), became Department Managers, responsible for, respectively, non-commercial functions and engineering services. Mr. Gogov, who at that time was a Director of a product division at Chimimport (the Bulgarian foreign-trade association that had domestic monopoly over the export and import of chemicals and related products) became in turn the third Department Manager, responsible for the sales of Systematics.

Mr. Golemanov used to take the most important business decisions at the joint venture in consultation with Mr. Tsibranski and Mr. Pirinski. Actually, the recommendations of the senior officials of the powerful Bulgarian ministries had the effect of direct orders since the Ministry of Chemical Industry used to control the access to industrial R&D and manufacturing facilities in Bulgaria, while the Ministry of Foreign Economic Relations used to control all transactions, involving local companies on one hand, and foreign firms on the other hand.

Sometimes representatives of Honeywell International Management took also part in the meetings of Mr. Golemanov with Mr. Tsibranski or Mr. Pirinski. The officials of the American parent company had however a say in issues of, by and large, secondary importance. Thus, the initial idea for the first big project of Systematics: the construction of an industrial

automation system at the synthetic fibre plant D. Dimov in Yambol (East Bulgaria) came from Mr. Tsihranski. Then the detailed plan of that project was developed by a group of specialists, working under the supervision of Mr. Pirinski for the Ministry of Foreign Economic Relations. The feasibility study was performed by a group of engineers of Systemchim under the supervision of Mr. Angelov. Finally, the representatives of Honeywell International Management became directly involved in the project too (when it was already at its implementation stage). In particular, Honeywell agreed to supply and, subsequently, delivered and installed a part of the necessary industrial equipment (TDC 3000 automation system with a range of 72 loops).

Furthermore, Mr. Golemanov relied on the contacts, which the Department Managers of Systematics had with the Bulgarian parent companies. In many cases the intercession of Mr. Kotchev and Mr. Angelov with the management of Systemchim, as well as, the personal influence of Mr. Gogov in Chimimport resulted in faster local support of Systematics' projects and a higher degree of commitment of the involved Bulgarian economic organizations to the success of the respective joint undertakings.

Nevertheless, Mr. Kotchev, Mr. Angelov, and Mr. Gogov were not supposed to act on their own initiative. Essentially, they were expected to follow closely the orders of the General Manager. Moreover, they were not allowed any personal discretion regarding the realization of their job assignments. The same rule was also valid for the ordinary employees, who were in turn assumed to obey

implicitly the orders of their Department Managers. To make the chain of command at Systematics clear for everybody, Mr. Golemanov reportedly prepared a big panel with the chart of the lines of authority and subordination at the joint venture depicted on it. At the top of the panel Mr. Golemanov put the words "Order, Discipline, Performance". The panel used to hang for a long period of time in the main lobby of Systematics.

Besides, employees who worked for different departments of the joint venture were not supposed to communicate directly with each other. All problems had to be reported to the respective Department Managers, who had in turn to inform in a concise form the General Manager of all outstanding issues.

2.1.2. Transfer of personnel.

Very few people left, or came to work for Systematics during the first three years of its existence. Mr. Golemanov consequently used to joke that the joint venture was an "exclusive club that was not open for the general public".

Actually, all appointments at Systematics had to be authorized by the Standing Commission of Monitoring Foreign Investments in Bulgaria and the Ministry of Foreign Economic Relations. So, the jobs at Systematics proved to be not only "closed" for the ordinary Bulgarian and non-Bulgarian citizens, but also assigned in accordance with the interests of the ruling communist elite. Moreover, Mr. Golemanov did not even try to hide the fact that he

discussed all personnel issues of the joint venture with Mr. Tsibranski and Mr. Pirinski. Essentially, he perceived that as a great privilege.

Mr. Maselli and Mr. Ferrari were usually not consulted on personnel-related matters. Nevertheless, the representatives of Honeywell International Management took part in the selection of Honeywell engineers to be employed temporarily by Systematics in order to assist the Bulgarian specialists in the realization of two big local projects (at the state-owned chemical plant in Vratza, as well as, the National Palace of Culture in Sofia). Worthy of noting, that was the only occasion of transferring Honeywell personnel to the Bulgarian joint venture at that time. Eventually, those people returned to their jobs in Italy after the completion in the end of 1986 of the widely-advertized by the Bulgarian authorities project at the National Palace of Culture.

Mr. Maselli and Mr. Ferrari subsequently evaluated the accumulated country-specific experience by the group of Honeywell engineers as useful. But the senior representatives of the American parent company were reportedly skeptical regarding the possibility for larger-scale personnel transfers to or from Systematics to be effected in the following several years. According to them, such transfers could not be warranted by the characteristics of the business activities in which the joint venture was then involved.

2.1.3. Transfer of technology.

Since the economic system in Bulgaria was essentially influenced by the dogmatic ideological concepts of the Marxism-Leninism, imposed through excessively coercive methods by the communist-dominated government, it was practically impossible for Systematics to take business decisions irrespective of the standpoint of the Bulgarian authorities. Besides, the powerful central ministries in that country like the Ministry of Chemical Industry and the Ministry of Foreign Economic Relations used to have exclusive control over the domestic sources of supply, the local channels of distribution, the regulation of competition in the various sectors of the Bulgarian industry, as well as, the access to the international market. In such circumstances, Mr. Maselli and Mr. Ferrari figured out that demonstrated willingness to cooperate with communist authorities could eventually bring about a lot of privileges for the local joint venture of Honeywell. On the other hand, the representatives of Honeywell International Management were aware of the desire of the Bulgarian political leaders to obtain some pieces of technologically-advanced equipment from abroad in order to, at least, simulate progressive development of the technological base of that country.

That's why, Mr. Maselli suggested during one of his meetings with Minister Pankov and Mr. Tsibranski at the Ministry of Chemical Industry that Systematics might assist the delivery and installation at Bulgarian pulp and paper plants of a couple of TDC 3000 automation systems with performance range of 48 loops.

Moreover, the application-time lag (that is, the period of time between the initial introduction of a Honeywell product in the U.S. and the introduction of the same product in Bulgaria) of those automation systems would just be 3.5 years according to the provisions of the offer made by Mr. Maselli (TABLE No 2.8). In other words, the involved product-embodied technology might be considered fairly advanced.

Mr. Pankov and Mr. Tsibranski certainly accepted that offer. Consequently, Systematics took care for the delivery of two TDC 3000 automation systems with 6 basic controllers each (especially designed for basic weight and moisture control) at the state-owned pulp and paper plants in Mizia (West Bulgaria) and Nikopol (North Bulgaria).

About 6 months after the completion of that project the Ministry of Chemical Industry was approached with an attractive proposal by Siemens (Germany) to invest 15 million DM in a joint venture in Bulgaria. That would have been the biggest single capital investment made ever by a western company in the East European country. The joint venture was intended to perform software development and system engineering services in the system automation sector in Bulgaria. In other words, Siemens' subsidiary would have been a direct competitor of Systematics. Minister Pankov personally informed Mr. Manselli and Mr. Ferrari during one of his visits in Milan (Italy) of the possibility for the German offer to be accepted.

But the representatives of Honeywell International Management

knew that the industrial automation system which had previously been installed at the synthetic fibre plant D.Dimov did not function properly at that time because of technical incompatibility with the rest of the industrial equipment at the Bulgarian plant. Actually, Systematics had assigned three of its engineers to work twelve-hour shifts on the premises of D.Dimov plant just to make sure that the installed Honeywell automation system would not completely fail to operate. In brief, the Bulgarian Ministry of Chemical Industry and Honeywell International Management (Italy) had a common problem to solve (and a common embarrassment to avoid). The situation could be improved only if an additional automation system with advanced technological characteristics was installed at the synthetic fibre plant in order to complement functionally the operation of the previously introduced Honeywell industrial system. So, Mr. Ferrari dropped a hint that his company might be both willing and able to help.

The Ministry of Chemical Industry decided however to probe the readiness of Siemens to provide an automation system of the needed technological parameters. But the Germans proved to be reluctant to get involved in such a deal. Subsequently, the negotiations between the Bulgarian officials and Siemens became very traumatic and the prospective joint venture eventually failed to materialize.

At the same time, the talks between the Ministry of Chemical Industry and the representatives of Honeywell resulted in a mutually satisfactory business agreement. In accordance with its

clauses, Systematics was given responsibility for the engineering of an industrial automation system with performance range of 144 loops, 9 multifunctional controllers, 1 extended operator station, and 2 basic-level operator stations (TABLE No 2.8). The joint venture of Honeywell managed to accomplish that technologically-sophisticated project in less than four months, thus, deserving official praises by both Mr. Pankov and Mr. Ferrari.

In addition, Systematics played the part of a system integrator for transferring several other pieces of technologically-advance equipment to various industrial and public facilities in Bulgaria. For instance, TDC 3000 industrial automation system with performance range of 80 loops, 6 multifunction controllers, and 3 extended operator stations was installed by the joint venture at the chemical state-owned plant in Vratza (West Bulgaria). Besides, HW Delta 1000, HW EXELL, and HW MICRONIC 100 building climate and security management sub-assemblies were integrated by Systematics' engineers on the premises of the National Palace of Culture in Sofia.

2.1.4. Transfer of business operations.

In the past, the Bulgarian government used to control both directly and indirectly the business operations of Systematics. On one hand, the central authorities used to impose on the joint venture numerous normative restrictions. On the other hand, the communist government used the monopoly control which it had

established over the Bulgarian society as a leverage to influence circumstantially the direction and content of the specific business operations of Systematics.

In greater detail, Systematics, as all other joint ventures in Bulgaria, was obliged by the law to exchange, actually to remise to the Bulgarian State Bank, 50% of its net profits in hard currency at the artificial rate of just 3 bulg.leva for one U.S. dollar, while the real exchange rate at that time, according to the estimates of western financial experts (e.g. from Die Erste, Vienna) was about 20 bulg. leva for one U.S. dollar.

Furthermore, the joint venture of Honeywell was required by the existing legislation to keep its money in strictly defined funds. The transfer of financial resources from one of those funds to another one as well as the establishment of new funds were greatly restricted through numerous bureaucratic regulations. Consequently, Systematics had to go through a tortuous process of filing petitions with the Bulgarian authorities every time when the joint venture wanted to get involved in non-routine business operations. Moreover, the Standing Commission of Monitoring Foreign Investments in Bulgaria and the Ministry of National Economy and Planning were notorious for their sluggishness and lack of responsiveness.

Essentially, the heartless and inefficient bureaucracy of these ruling bodies was the major reason for Systematics to fail in the organization of its public relations campaign. "They told us to finance our public-relations activities from the fund "Daily

Allowances". But that could have created a lot of administrative problems at Systematics since the normatively-determined amount of that fund was relatively small"- expressed his opinion Mr. Kotchev.

Business operations of the joint venture were also frustrated by the flaws of the Bulgarian banking system -- Systematics payments from its own bank accounts were usually delayed by the Bulgarian State Bank, which was generally very slow to process the financial transactions of its customers due to its bureaucratic obligation to perform the so-called "total control through money" in the country.

Certainly, the representatives of Honeywell International Management were annoyed by the peculiarities of the established economic mechanisms in Bulgaria. Moreover, it was clear for both Mr. Maselli and Mr. Ferrari that in many cases the behavior of Mr. Golemanov and the other Bulgarian managers of Systematics was manipulated by the Ministry of Chemical Industry, which always tried to find ways to obtrude its standpoint on the joint venture (at the time, when political, legislative, administrative, and economic power in the local society was exclusively concentrated in the hands of the communist nomenclatura, that was not a very difficult matter). That's why, the senior officials from the American parent company were generally reluctant to use the technical skills of Systematics engineers for the realization of projects outside Bulgaria. Actually, Mr. Masseli and Mr. Ferrari had only once given their permission before 1987 for the joint venture to take part in Honeywell projects abroad --- In 1986

Systematics performed the feasibility study to a project to install TDC 3000 industrial automation system at the state-owned refinery in Baroda, India (TABLE No 2.6).

Besides, the representatives of Honeywell International Management were not inclined to increase the scale of resource commitment of their company to the Bulgarian joint venture. As a matter of fact, they declined twice the business plan, proposed by Mr. Golemanov, for boosting the volume of local sales and widening the scope of value-adding operations of Systematics through larger Honeywell technological and financial involvement in Bulgaria. Subsequently, the revenues of the joint venture stagnated at approximately \$3 million per year level (TABLE No 2.10), and the functional scope of Systematics business activities remained unchanged (TABLE No 2.5).

Nevertheless, the joint venture of Honeywell enjoyed the privilege to have a captive market in the East European country. The relations between Mr. Maselli and Mr. Ferrari on one hand, and the top-level Bulgarian government officials on the other hand, also seemed to develop successfully. In addition, Mr. Golemanov, despite his obvious loyalty to the communist regime, appeared to be capable of finding some useful solutions to the problems of Systematics. So, the senior officials from Honeywell had several strong incentives to, at least, exhibit formal acceptance of some ideologically-motivated quirks of the Bulgarian authorities.

In essence, according to the communist ideology there were only two types of "production relations" at that time -- socialist

and capitalist -- which were antagonistic and markedly incompatible with each other. Consequently, since production relations in Bulgaria were of the socialist type even companies with "capitalist participation" were supposed to function on the principles characteristic of that kind of production relations. In more concrete language, that meant "encouraging" Systematics to take part only in projects which could increase the prestige of the Communist Party, that is, the "leading force" in the socialist society. Eventually, the biggest project, carried out by Systematics during the first three years of its existence, proved to be the design and installation of a total building management system (fire alarm, lighting, heating, cooling, ventilating and air-conditioning controls, which were functionally integrated) at the National Palace of Culture, named after the daughter of Zhivkov (the General Secretary of the Central Committee of BCP). All vital components and sub-assemblies for that system were provided by Honeywell. The first stage of the project was finished in 1984, while the entire system became operational two years later, upon the completion of the second stage of the project in 1986.

2.2. Systematics in 1991.

2.2.1. Organizational structure.

Systematics is currently managed by a group of technocrats, who have strong connections with Systemchim (TABLE No 2.4). The General Manager of the joint venture is Mr. Angelov. He has replaced Mr. Golemanov, who has left the company in order to pursue an academic career at the University of Helsinki (Finland). Mr. Kotchev has in turn been promoted to the Deputy General Manager. Besides, Mr. Kotchev has taken responsibility not only for the non-commercial functions (finance, accounting, and personnel), but also for the sales of Systematics. Thus, he is able to monitor closely the immediate economic results for the joint venture which stem from the sales of individual automation systems or specialty products.

In addition, the organizational structure of the joint venture at present is of a matrix type (TABLE No 2.2). There are three major commercial functional areas: software engineering and development, systems engineering and servicing, and sales, as well as, three major product areas at Systematics: industrial automation, home and building automation, and information systems.

The most important business decisions at the joint venture are currently taken by Mr. Angelov and Mr. Kotchev in consultation

with the concerned area heads on one hand, as well as Mr. Maselli, Mr. Ferrary, and Mr. Nolden (senior representatives of Honeywell International Management) on the other hand. For instance, the initial idea for the recent organizational diversification of Systematics into information systems and related specialty products came from Mr. Kotchev, who had extensive knowledge on the commercial aspects of modern information technologies. Subsequently, Mr. Kotchev in cooperation with Mr. Angelov and Mr. Nikiforov (the industrial automation area head) developed a business plan for the realization of the project. In essence, the information systems and specialty products area was intended to be formed on the basis of a part of the organizational resources of the industrial automation area (people, facilities, technical equipment, etc.). The new product area at the joint venture had to consolidate organizationally the growing volume of profitable Systematics operations, like the barter deals with formerly Soviet foreign trade organizations providing for the exchange of Bulgarian PCs for Soviet agricultural chemicals, which did not generally fit the fields of industrial automation, or home and building automation. Mr. Maselli and Mr. Ferrari had then the final say in the plan for the prospective organizational reshuffle at Systematics. They largely approved of the idea for the joint venture to diversify organizationally, but their recommendation was that the prospective information systems and specialty products area should mostly involve Honeywell-related business activities. Besides, the representatives of Honeywell International Management

suggested that if their recommendation was accepted, it would be possible for the American parent company to transfer to Bulgaria the manufacture of some electronic and mechanic components, which could eventually be used at Honeywell assembly plants in West Europe. Worthy of noting, the new management of Systematics was eager to increase the value-adding range of the business operations of the joint venture. So, the proposal of Mr. Maselli and Mr. Ferrari was accepted without whatsoever corrections.

Furthermore, Mr. Angelov has introduced the practice of "open hours" at Systematics. Essentially, every business day the General Manager, Deputy General Manager, and area heads are presently required to devote at least one hour of their time (usually in the early afternoon) to discussions with employees of the joint venture. These meetings have eventually proved to be a source of valuable information regarding the current problems, which the organizational units of Systematics have encountered in servicing their customers and meeting the challenges of the intensifying competition. Thus, a group of technical specialists from the systems engineering and servicing unit of the industrial automation area shared with Mr. Angelov during one of his open hours that they had overheard a very important conversation in Antibiotitsi Co. (a long-time client of Systematics). According to their information, Biochem (the Bulgarian subsidiary of Billy Bros Inc., the U.K.) had approached the management of Antibiotitsi Co. with a very attractive offer to supply a new automation system in order to improve the quality of the batch manufacturing process at that

company. Consequently, Mr. Angelov and Mr. Nikiforov asked for the advice and help of Mr. Maselli, and in a short period of time Honeywell's joint venture was able to come up with its own attractive offer, which was given to the management of Antibiotitsi Co. Systematics eventually won the bidding with Biochem and retained its strong position in the bio-technology industrial automation sector in Bulgaria.

In addition, both managers and ordinary employees of the joint venture are currently allowed to exchange directly ideas with other people, who work for the firm, irrespective of their formal rank and organizational unit affiliation. This way, the management of Systematics had accomplished several interrelated goals: the useless paper turnover has been minimized, the top managers have become able to devote more time to personal contacts, and the commitment of the personnel to their job-related duties has increased.

2.2.2. Transfer of personnel.

According to Mr. Kotchev, Systematics is currently involved in two major kinds of personnel transfer. On one hand, the joint venture is sending some of its employees on various missions to different Honeywell affiliates in Europe, America, Africa, and Asia. On the other hand, Systematics is recruiting new managers and technical specialists.

In greater detail, about 30 people were transferred just in

1990 from the Bulgarian joint venture to other affiliates of the American parent company. It should however be stressed that most of those people were sent only temporarily away from their jobs in Bulgaria. Essentially, they have attended some of the training courses, sponsored by Honeywell in Brussels (Belgium), Braknel (the U.K.), or Phoenix (Arizona, the U.S.). The Bulgarian graduates from these courses have already been given (or will shortly be given) diplomas, certifying the fact that these people have accumulated enough knowledge and experience to work at all Honeywell installations.

In addition, Bulgarian specialists are presently offered the opportunity through Systematics to work at Honeywell projects and, subsequently, to grow in the Honeywell world-wide system. For instance, three engineers, who used to work for Systematics, have already been appointed by Honeywell as project managers to supervise the installation of Honeywell systems in, respectively, Venezuela, Nigeria, and China.

Furthermore, Systematics has developed a program for the establishment of direct work contacts with skillful technical specialists, as well as, talented students and young scholars. This program has three stages: At the first stage people are offered to accumulate hands-on experience using the training equipment of Systematics at Systemchim. The trainees can enrol in the program exclusively on the recommendation of their department managers or professors. At the second stage, the training is done already in a real industrial setting and the role of teachers is performed by

actual department managers of Systemchim. As a result, the trainees are divided into three groups: technical students, management students, and people who are discouraged to continue their attendance of the program. At the third stage, according to Mr. Kotchev, the trainees are offered to go through the so-called "leader-formation" process at Systematics. The joint venture actively assists them to extend their knowledge further through giving them suitable work assignments. One example of a trainee, who has successfully passed all the stages of Systematics' sponsored program, is Mr. Vultchev. Now he works for the East European section of Honeywell Europe (Austria). Another example is Mr. Nikiforov, who, after being industrial automation area head at the joint venture, also works at present for the regional branch of Honeywell International Management in Vienna.

In order to be able to increase the scale of this program in the future, Systematics is trying now to strengthen its relations with Systemchim and the local academic community. In particular, Mr. Angelov had arranged for a group, consisting of 32 Systemchim specialists, to be functionally separated by the Bulgarian parent company from the rest of its personnel to service directly the business operations of Systematics (TABLE No 2.4). This way, the joint venture can take advantage of the accumulated knowledge and experience of some of the best specialists in Bulgaria in the field of engineering services for process controls and building automation and, at the same time, this firm is able to keep its variable costs at a reasonable level since it employs these people

on a part-time basis only when it needs their help.

Besides, the joint venture has developed very close ties with two big technical institutes in Sofia: The Higher Institute of Chemistry and Technology (HICT) and The Technical University (TU). Two specialists of Systematics work as associate lecturers at these institutes and four other people from the personnel of the joint venture are currently writing their graduate theses on Systematics-related topics there. The management of Systematics supports these employees in two ways: it secures for them a direct access to the necessary documentation, and it provides them, without any charge, with all kinds of office support -- computers, typewriters, copy-machines, fax-machines, office space, etc.

Mr. Kotchev has personally taken the responsibility to be the champion of the relationship between Systematics and the academia. For this purpose, he is currently involved in lecturing at the University of National and International Economics and the Bulgarian Institute for Social Management. Through Systemchim, the Bulgarian company which owns most of Systematics' equity, he has also arranged for some research projects at these institutes to be given substantial financial support.

"We believe that our people, every one of us, should constantly expand our knowledge, and we are against any form of complacency"-said Mr.Kotchev-"That's why, our relationship with the academia is a kind of "purgatory" for us. Moreover, we need new talents and fresh ideas at Systematics, and the contact with the academia can help us get hold of both of them. This is the only

way for Systematics to meet successfully the challenges of our immediate environment".

Worthy of noting, the Bulgarian affiliate of Honeywell has recently been seeking to employ not only Bulgarian managers and engineers, but also specialists sent to the joint venture, or at least recommended, by the International Division of the American parent company. Nevertheless, the transfer of people from the world-wide operations of Honeywell to Systematics has been negligible (TABLE No 2.4).

Actually, several engineers of Honeywell Europe (Austria) have spend some time in Bulgaria working on three Systematics' projects lately. But according to Mr. Angelov, those people, although being excellent specialists, have displayed "psychological inability" to adapt to the ways of doing business in that country. Hence, the General Manager of Systematics has suggested that the transfer of western personnel to the Bulgarian joint venture would be more effective, if the respective people were preselected using certain psychologically grounded criteria.

Mr. Nolden has been even more explicit. He has pointed out in a recent conversation with Mr. Angelov and Mr. Kotchev that his company doesn't consider the large-scale transfer of western specialists to Systematics expedient since very few of them could sustain the level of their productivity in the "weird local business environment".

2.2.3. Transfer of technology.

At present, Systematics is actively involved in transferring various kinds of Honeywell technology to Bulgaria. Actually, the joint venture has not only been taking care of the supply of some Honeywell-licensed products, but has also been assisting the transfer of people- and process-embodied technologies to that country (TABLE No 2.9).

For instance, Systematics has recently delivered three TDC 3000 industrial automation systems with performance range 60 loops and 3 extended operator stations each to the state-owned chemical company Polychim (Devnia, East Bulgaria), the state-owned metallurgical complex Kremikovtsi (near Sofia), and the semi-private synthetic-fibre company Koprineni Tuckani (Svishtov, North Bulgaria). Besides, two HW EXCELL building-climate management controllers have been provided to the state-owned food company Rodopa (V. Turnovo, North Bulgaria) and the semi-private textile firm Vitosha (Sofia).

It should however be emphasized that the application-time lag of these Honeywell engineering products is presently estimated at approximately 6-7 years, while just 5 years ago the application-time lag of the delivered Honeywell systems used to be evaluated at 3.5-4 years. The management of the joint venture has certainly been disturbed by this change. Correspondingly, Mr. Angelov and Mr. Kotchev have set the goal of curtailing and, possibly, even eliminating the growth of the application-time lag of Honeywell

engineering products to be supplied in the nearest future to customers in Bulgaria. For this purpose, Systematics works now in close contact with the management of Honeywell Europe (Austria) to secure an effective commercial access to systems like UDC-9000 (an automation system with a significantly reduced physical size) and Micro TDC 3000, featuring TDC 3000 rearranged in a small and low-cost, but functionally intact, configuration.

To be sure, there could be some distinct economic benefits for Systematics, according to Mr. Kotchev, if the application-time lag of Honeywell products in Bulgaria became relatively shorter in the future. In the first place, there could be a pure financial gain due to the higher profit margins that are usually associated with the sale of every, in principle, more advanced product. In the second place, the engineering personnel of Sytematics would be given an additional incentive to work harder toward mastering the modern technological concepts, embodied in Honeywell products. In the third place, being in contact with more sophisticated technology, the people of the joint venture would accumulate valuable specialized experience which can eventually give Systematics a competitive edge.

Furthermore, Mr. Angelov and Mr. Kotchev have found out, after studying the opinion of Honeywell customers in Bulgaria, that there is a growing local demand for western knowledge, both technical and non-technical. In addition, Mr. Maselli, Mr. Ferrari and, lately, Mr. Nolden have frequently stressed that, taking into account the ongoing socio-economic and political developments in Bulgaria,

Honeywell will actively support a change at Systematics from delivering exclusively products to relatively larger-scale involvement in transferring various functional operations and related knowledge (on, certainly, commercial basis) to that country.

Consequently, the joint venture of Honeywell has established the biggest privately-owned and company-operated engineering and business center in East Europe. A lot of Bulgarian specialists (mostly employees of client-companies) have attended the courses in process controls, building automation, and management principles at that center. Only in 1990, more than 250 people successfully graduated from, at least, one of those courses. In order to have a high-quality training at its center, Systematics takes advantage not only of the modern equipment, delivered for the purpose by Honeywell, but also of a specialized demonstration software library, developed by the joint venture in cooperation with Honeywell International Management (Italy). Besides, to avoid inconvenience for the trainees during the learning process, as well as to secure more productive results for them, Systematics makes use of the specialized premises of Systemchim which the Bulgarian parent company has eagerly provided to host the activity of the engineering and business center.

The teaching there is done by both people from academic institutions and practitioners from Honeywell International Management as well as Systemchim. Three major types of courses are offered at present: for employees of domestic client-companies

(courses have been designed to teach the participants how to operate and maintain properly Honeywell systems), for everybody interested in enhancing their technical qualification (the participants have been lectured on the basic digital concepts), and for senior managers from local private companies (the lecture material has been focused on the basic strategic management, operation management, and marketing concepts). Usually, the training courses at the center are short-time (just 8-9 days). "We are committed to secure a high-quality training process at our center"-explained Mr. Angelov-"Besides, we want to help our clients without distracting for a long period of time the attention of their best managers and engineers from the immediate job assignments".

In addition, Honeywell has provided its practically tested methodology for advanced-technology project management to Systematics. Beside the related documentation, Honeywell has also sent its experts to Bulgaria to assist the transfer of management know-how. "We really need that, because we still have only a very vague idea of what modern project management is"- said Mr. Angelov.

Systematics, in its turn, actively supports the current Honeywell clients in Bulgaria to establish their own modern service centers. The joint venture not only facilitates the supply of Honeywell testing equipment, but it also assigns some of its specialists to help the Bulgarian customers on a part-time basis for the improvement of the quality of their engineering service. For instance, Systematics has assisted Neftochim Co. (Burgas, East

Bulgaria), and Antibiotitsi Co. (Pazgrad, East Bulgaria) in developing technical service centers at their facilities. For that purpose, the joint venture has provided the Bulgarian companies with testing equipment of Honeywell TDC 3000 Series and qualified on-the-site training, performed by a group of Systematics' specialists. This way, the joint venture actually fosters the creation of a modern business infrastructure in Bulgaria.

Furthermore, Systematics has helped for the development of domestic manufacturing of Honeywell Series 2000 control valves by Chiminvest Co. in Knezha (North Bulgaria) in accordance with the established international standards. The joint venture has assisted the local company to receive direct technical support by Honeywell specialists. Besides, engineers of Systematics have taken care of the quality control of the manufactured by Chiminvest Co. valves. In fact, the specialists of the joint venture found that the initially produced by the Bulgarian company Honeywell-licensed components had some technical defects because of functional incompatibility of the used Greek-manufactured mechanic positioners (devices, which were vital for the appropriate valve operation). The problem was subsequently solved due to the active involvement of Mr. Nolden in that project. He personally recommended that Systematics should take part in the development of production of mechanic positioners close to the plant of Chiminvest in Bulgaria.

The management of the joint venture responded in just two months to that recommendation with a detailed plan for the launching of the manufacture of the necessary components at the

state-owned company Kotcho Tsvetanov in Plovdiv (South Bulgaria). Following the approval of that plan by Mr. Nolden, the transfer of the respective Honeywell technology was carried out within ten months through both direct on-the-job assistance in Bulgaria by specialists of the American company and training engineers from the Bulgarian state-owned firm, who were selected by Systematics, on the premises of Honeywell in Frankfurt (Germany).

Eventually, Systematics has managed to develop an integrated production in Bulgaria of major components for Honeywell engineering products. Moreover, these components are, according to Honeywell experts, "fully compatible with the respective Honeywell systems". As a result, the performance level of the various kinds of automation systems in that country has been either improved or, at least, sustained because of the local sourcing (paid in bulg. leva) of important mechanic components.

In addition, Bulgarian-produced control valves and positioners are currently exported to Germany to be used as components in Honeywell systems, which are assembled there. Honeywell Series 2000 control valves, which are manufactured by Chiminvest Co. are also used at present by service engineers of the American company as replacement parts to maintain the operation of the still functioning TDC Series 2000 automation systems all over the world.

2.2.4. Transfer of business operations.

Systematics has currently total revenues of about \$3 million per year (TABLE No 2.10). Besides, the local customers of the joint venture are generally satisfied with the quality of Honeywell engineering products. The contact with specialists (from Systematics), who speak the native language of the clients, as well as the qualified service, provided by Honeywell's joint venture in Bulgaria are also important factors behind the substantial (especially in relative terms) competitive success of the American company in that country: at present its Bulgarian affiliate enjoys 90% share of the local automation systems market, despite the intensifying competition due to the entry of international firms like Billy Bros. (the U.K.), Sormel (France), and Siemens (Germany).

Furthermore, Systematics is currently involved in the realization of several projects of great importance for both Honeywell and Bulgaria. For instance, one of these projects, associated with the manufacture at Autoelectronica Co. (Plovdiv, South Bulgaria) of sensors for ignition systems (special micro-switches) that are subsequently used in the assembly of Soviet-manufactured cars of the trade mark "Samara", is explicitly mentioned even in the latest Honeywell Inc.'s Annual Report. Besides, Systematics supplies the big state-owned plant Spartak with Honeywell-produced sensors for fire-jet control which are used for the manufacturing of gas jets. The joint venture is also

involved in the business deal for installation of automation process controls of Honeywell TDC 3000 Series with wide performance range at Polychim Co. (Devnia, East Bulgaria) and Sviloza Co. (a big pulp and paper firm in Svishtov, North Bulgaria). In addition, Systematics works on providing engineering support to Polychim Co. for development of sulphur-based production there.

Nevertheless, the representatives of Honeywell International Management do not feel inclined to aim at an increase in the volume of local sales of the joint venture. Mr. Nolden has, in particular, expressed opinion that the business environment in Bulgaria is still characterized by the existence of many "incomprehensible irritants". Essentially, Systematics has to deal at present with company managers, most of whom used to be members of the various bureaucratic organizations trying to control the business activities of the joint venture in the past. Besides, the detrimental legacy of the communist-style economic management in the country is still present. It is exhibited in the backward and erratic taxation system, deficient rules for labor remuneration, and lack of active support to private business.

"The tax regulations in Bulgaria are still anti-business oriented"--said Mr. Kotchev--"Actually firms do not have any incentive now to make big profits since after their net earnings have reached 80 000 bulg.leva, the state essentially appropriates all their profits in excess of this amount through the imposed taxation scheme".

Moreover, the employees of Systematics are still not allowed

to receive their pay in convertible currency. So, the people are not motivated by the existing normative regulations in Bulgaria to work harder in order to increase the profit of Systematics either in bulg. leva or in hard currency.

In addition, as Mr. Angelov has explained, "They (the government) do not impose on us any longer their point of view with respect to where we should keep our money. But they don't help us either. We have heard that in some other countries it is the government that is responsible for providing information to domestic companies of the existing investment opportunities abroad. Our government doesn't provide us with any sort of useful information yet."

In such circumstances, Honeywell assists the operations of its Bulgarian joint venture in two major ways. Firstly, the American parent company actively supports the widening of the scope of the value-adding chain of Systematics. For instance, Honeywell International Management (Austria) has recently sent a group of its engineers to help the Bulgarian affiliate in providing software development services to local clients. Those Honeywell specialists have also taken part in system engineering and system integration operations of the joint venture.

In greater detail, Systematics has carried out customer-tailored software development, as well as, system engineering and integration of total building management systems including HW EXCELL, HW DELTA 100, HW DELTA 5200, and MICROCENTRAL controllers at Antibiotitsi Co., Autoelectronica Co. and the Bulgarian Foreign

Trade Bank.

Secondly, the joint venture is currently sponsored by Honeywell for establishing long-term business relations with customers outside Bulgaria. As a rule, Honeywell makes the first contact with the potential clients and provides them with the so-called packet of "standard services". Systematics is then given the right to perform the so-called "optional services", if the customers need further specialized assistance. Generally, the clients of the Bulgarian joint venture are from Third World countries like Venezuela, Nigeria, and India, but there also are several cases of specialized services provided to companies from industrially-developed countries like the U.K., Italy, Belgium, Portugal, etc. (TABLE No 2.7). In most of these cases Systematics supplies specialized and even customer-tailored software.

For instance, the joint venture has recently performed a feasibility study and, subsequently, on-the-site installation of automation system of Honeywell TDC 3000 Series at the British Petroleum's refinery in Cranchmont, England. Besides, Systematics has contributed a specialized application software package to that project. In addition, the joint venture has carried out specialized software development services to the Italian company Stanic (Livorno), the Portuguese firm Globo (Lisbon), and the Soviet organization PO "Azot".

Moreover, Systematics is presently authorized by its American parent company to act as a system-integrator for Honeywell not only in Bulgaria, but also in the former U.S.S.R. and East Europe, as

well as in some Third World countries. In addition, objects of system integration, beside Honeywell-licensed equipment, are systems which have been produced by companies like Klokner-Muller, Testoterm, Pruftechnik (all of them from Germany), Lippke and Festo (Austria), etc.

TABLE No 2.1

ORGANIZATIONAL STRUCTURES OF HONEYWELL, DOW CHEMICAL AND
FANUC SUBSIDIARIES IN BULGARIA (1986)

SYSTEMATICS (HONEYWELL)

GENERAL MANAGER
(MR. GOLEMANOV)



CHIMTRADE (DOW CHEMICAL)

MANAGING DIRECTOR
(MR. T. ILIEV)



FANUC-MACHINEX (FANUC)

CHAIRMAN OF THE BOARD
(MR. KOSTADINOV)



TABLE No 2.2

ORGANIZATIONAL STRUCTURE OF HONEYWELL SUBSIDIARY IN BULGARIA (1991)

SYSTEMATICS (HONEYWELL)

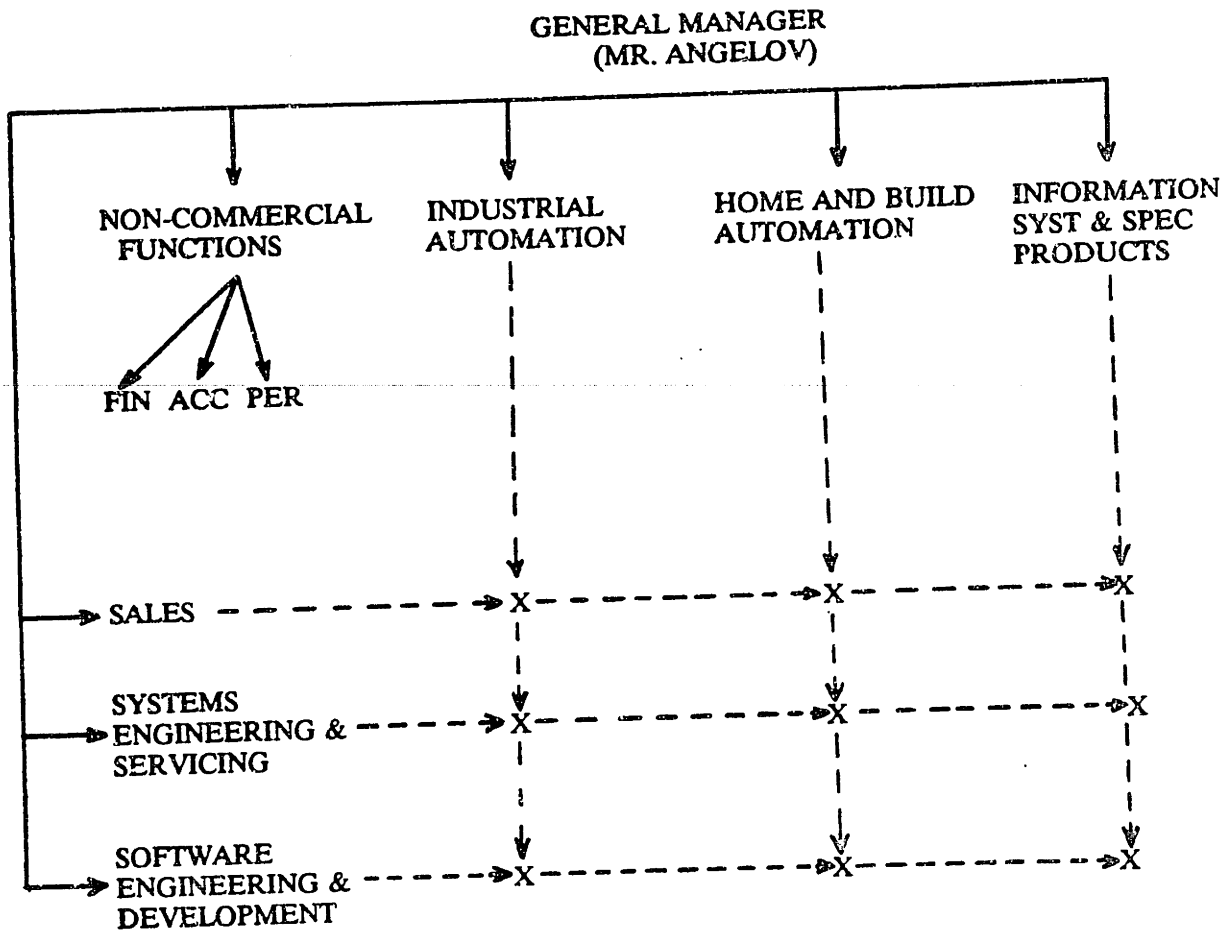


TABLE No 2.3
 SYSTEMATCS
PERSONNEL COMPOSITION (1986)

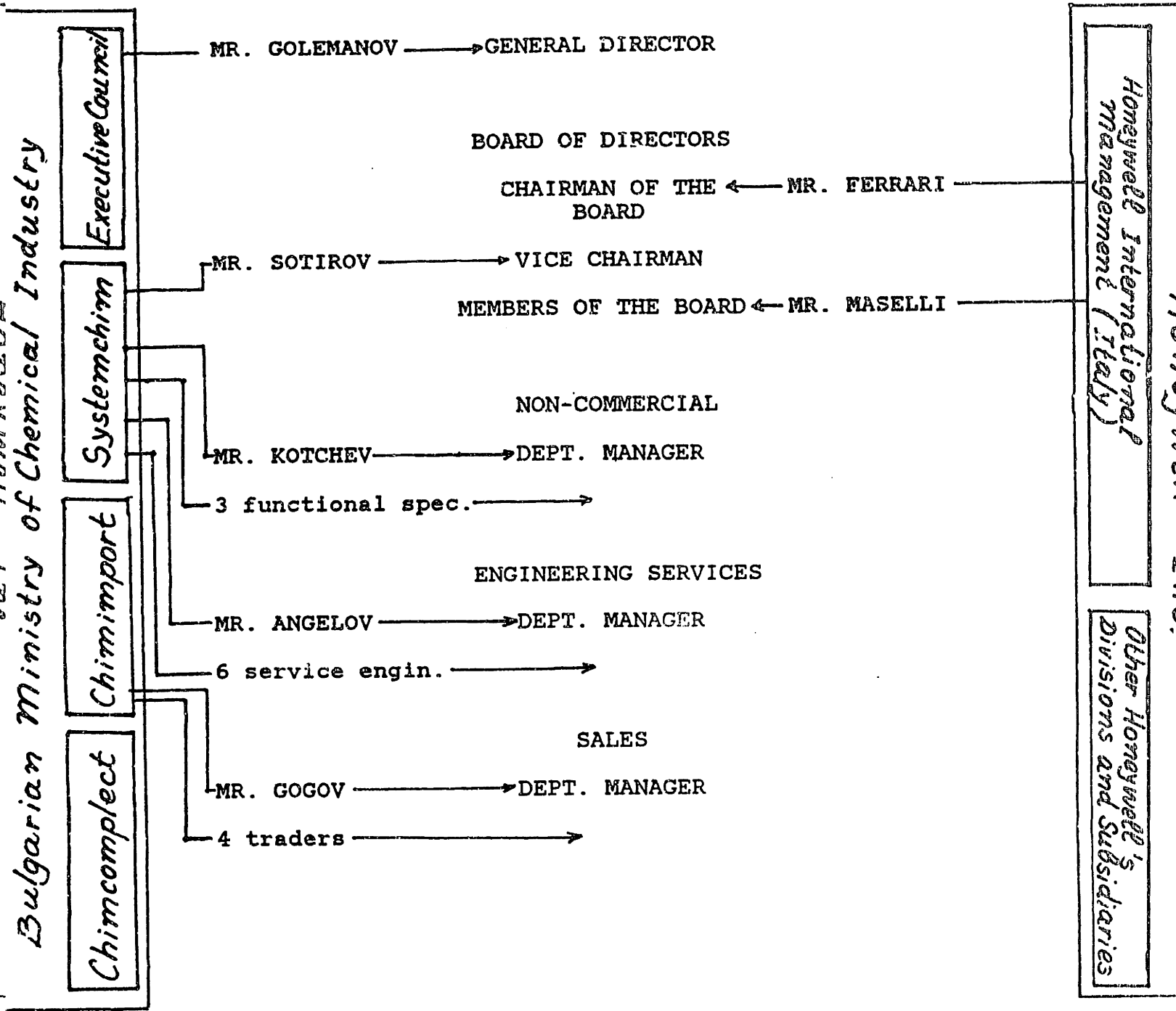


TABLE No 2.4

**SYSTEMATICS
PERSONNEL COMPOSITION (1991)**

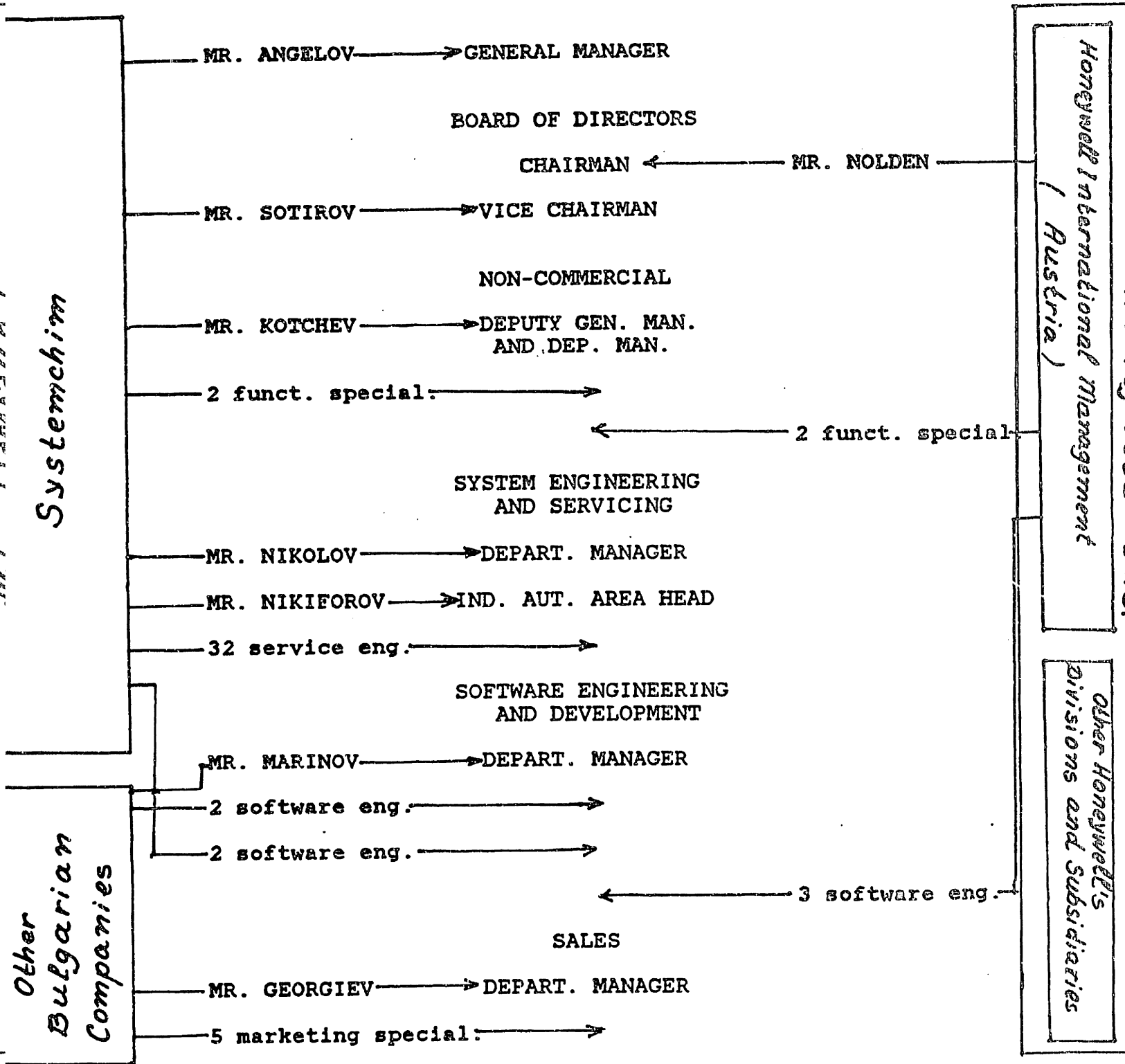


TABLE No 2.5

SYSTEMATICS

VALUE-ADDING SCOPE

VALUE-ADDING STAGE	R&D	ENGIN	PROC	MANUF	ASSEM	MARK	DIST	RET
YEAR								
1986						X		
1991		X	X		X	X		

R&D -- Research and development

ENGIN -- Engineering

PROC -- Procurement

MANUF -- Manufacturing

ASSEM -- Assembling

MARK -- Marketing

DIST -- Distribution

RET -- Retailing

TABLE No 2.6

SYSTEMATICS

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1986

COUNTRY OF OPERATION	BULGARIA	INDIA
SITES		
SITE 1	VRATSA	BARODA
SITE 2	SOFIA (NATIONAL PALACE OF CULTURE)	
SITE 3	MIZIA	
SITE 4	NIKOPOL	
SITE 5	YAMBOL	

TABLE No 2.7

SYSTEMATICS

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1991

COUNTRY OF OPERATION	BULG	EUROPE	USSR	OTHER
SITES				
SITE 1	RAZGRAD	CRANCHMOND (U.K.)	NOVOMOSKO	CARORA (VENEZ)
SITE 2	DEVNIA	LIVORNO (ITALY)	SEVERODON	WARRY (NIGER)
SITE 3	KREMIKOV	LISBON (PORT)	NEVINOMINSK	
SITE 4	SVISHTOV (KOPRINENI TUCKANI)		BAKU	
SITE 5	SVISHTOV (SVILOZA)			
SITE 6	V. TURNOVO			
SITE 7	SOFIA (VITOSHA)			
SITE 8	SOFIA (FOREIGN TRADE BANK)			
SITE 9	BURGAS			

TABLE No 2.6

SYSTEMATICS

TECHNOLOGY TRANSFER
1986

TYPE OF TRANSFERRED TECHNOLOGY	PRODUCT-EMBOD	PROCESS-EMBOD
MAGNITUDE OF APPLICATION-TIME LAG (IN YEARS)		
1 - 4	TDC 3000 AUTOMATION SYSTEM (144 LOOPS, 9 MULTIFUNCTION CONTR., 1 EXT. OPERATOR STAT) HW EXCELL HW DELTA 5200	
5 - 10	HW MICRONIC 100 HW DELTA 1000	
10 +		

TABLE No 2.9

SYSTEMATICS

TECHNOLOGY TRANSFER
1991

TYPE OF TRANSFERRED TECHNOLOGY	PRODUCT-EMBOD	PROCESS-EMBOD
MAGNITUDE OF APPLICATION-TIME LAG (IN YEARS)		
1 - 4		
5 - 10	TDC 3000 AUTOMATION SYSTEM (60 LOOPS, 3 EXT. OPERATOR STAT.) HW EXCELL HW DELTA 5200	KNOW-HOW ON ADVANCED- TECHNOLOGY PROJECT MAN
10 +	HW MICRONIC 100 HW DELTA 1000	KNOW-HOW ON MAN OF MODERN SERV. CENTERS LICENCE FOR HW SERIES 2000 CONTROL VALVES KNOW-HOW FOR MAN OF MECHANIC POSITIONERS KNOW-HOW FOR SULPHUR-BASED PRODUCTION-AUT

TABLE No 2.10

SYSTEMATICS
ANNUAL REVENUES (IN THOUSAND \$)

BUSINESS AREA	INDUSTRIAL AUTOMATION	HOME AND BUILDING AUTOMATION	INFORMATION SYSTEMS AND SPECIAL PRO
YEAR OF OPERATION			
1986	1365	1640	60
1991	1345	1195	1120
TOTAL 1986 --	3065		
TOTAL 1991 --	3660		

CHAPTER THREE: CHIMTRADE (DOW CHEMICAL BULGARIA)

OVERVIEW

The joint venture Chimtrade was established in 1985. It was the first affiliate of the Dow Chemical Co. in East Europe and the fourth investment of a western company in Bulgaria.

Initially, the joint venture had a statutory fund of \$100 000 and the ownership on Chimtrade's capital was shared by only three companies: The Dow Chemical Co. from the U.S. (with a 50% share), Chimimport Co. from Bulgaria (with a 45% share), and Chimcomplect Co. from Bulgaria (with a 5% share). In 1986, however, Verila Co. purchased 30% of the equity of the joint venture from Chimimport Co., thus leaving the latter with only a 15% share.

Worthy of noting, Mr. Frank Popoff (the President and CEO of Dow) took personally part in the creation of Chimtrade. Mr. Popoff, who was born in Bulgaria, wanted to make sure that the joint venture would receive proper support by senior officials of Dow Chemical Europe, as well as, the top-level Bulgarian authorities. Mr. Fieler, who was Executive Vice President and Director of European operations, was respectively authorized to represent the American company in all matters concerning the functioning of

Chimtrade (TABLE No 3.3). Furthermore, Dow's joint venture was allowed to carry out the transfer of fairly-advanced technologies to Bulgaria despite the strict restrictions, which used to be applied to the technology sales to communist countries at that time.

Chimtrade enjoyed also privileged treatment by the various state-government agencies in that East European country. In fact, the members of the ruling Bulgarian elite seemed to be predisposed to protect Dow's locally-based affiliate from any kind of competition by other international joint ventures or independently-owned subsidiaries in Bulgaria. At the same time, the transfer of Dow technologies through Chimtrade to various local recipients did not turn out to be successful. The overall volume of the annual revenues of the joint venture stagnated and the value-adding range of Chimtrade's business operations remained narrow (TABLE No 3.5).

Since the beginning of the radical changes in the Bulgarian socio-economic system both Dow and the state government of that East European country have apparently changed their manner of dealing with the joint venture. Dow has transferred the responsibility for its Bulgarian operations to its regional office in Vienna, Austria. Mr. Mildner, who was a Department Manager at Dow Chemical Europe, has subsequently been given the authority to perform control functions, on behalf of Dow, over the business activities of Chimtrade (TABLE No 3.4). Besides, the local affiliate of the American company had become increasingly involved in transfers of conventional technologies to Bulgaria, while the

transfers of modern technologies to the already non-communist country have been markedly reduced.

On the other hand, the new Bulgarian government hasn't exhibited inclination to provide some special privileges to Dow's joint venture lately. As a matter of fact, Chimtrade has not been assisted in any way by the state-government in that country in coping with the growing uncertainty there, as well as, the intensifying competition by several other international joint ventures and independently-owned foreign affiliates. Moreover, Chimtrade has recently lost a significant part of its former staff due to a few big personnel changes, and the new employees of this firm haven't appeared to be prepared to act successfully in the local business environment that has become more and more dominated by the rules of the market economy and the political democracy.

Nevertheless, Dow's affiliate has reportedly carried out several projects in Bulgaria lately which have brought forth substantive positive effects on both raising the efficacy of the production processes at the involved local industrial facilities and increasing the compatibility of the Bulgarian-manufactured chemical products with the functional specifications of Dow's industrial installations. In addition, the geographic scope and value-adding range of Chimtrade's business operations have significantly grown and a few of the employees of the joint venture have been promoted to management positions at several West European subsidiaries of the American parent company.

3.1. Chimtrade in 1986

3.1.1. Organizational structure.

All management positions at Chimtrade used to be exclusively occupied by Bulgarians (TABLE No 3.3). The Managing Director of the joint venture was Mr.T.Iliev, who was also a Department Manager at Chimimport. He had carved out a very successful career for himself at that big foreign-trade company through establishing close ties with Mr.Ganchev (the General Director of Chimimport at that time) and Mr.Paparizov, who used to be the Director of East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations. Note worthy, Mr.Ganchev was a personal acquaintance of Mr.Frank Popoff, who eventually approved of the appointment of the young and career-oriented Mr.T.Iliev to the highest position in the organizational structure of Dow's affiliate in Bulgaria.

The Deputy Managing Director of Chimtrade was Mr.Minkoff. He was reportedly a very experienced administrator, who had worked for several different government agencies on assignments both inside and outside Bulgaria. Besides, Mr.Minkoff enjoyed the protection of Minister Pankoff and Mr.Pirinski (the First Deputy Minister of the Bulgarian Ministry of Foreign Economic Relations).

According to Mr.T.Iliev, the Bulgarian authorities used to be very persistent in their attempts to obtrude communist-style

economic management practices on Chimtrade. That's why, the Standing Commission of Monitoring Foreign Investments in Bulgaria was entrusted by the Central Committee of BCP with the duty to work out a scheme of gathering elaborate information on the internal developments at Dow's joint venture, as well as, taking corrective measures when it was considered necessary. Consequently, Mr.T.Iliev was required to give regularly official reports to East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations. Mr.Paparizov was then responsible for reviewing those reports and preparing summary accounts to be presented to the Standing Commission.

The opinion of the members of that top-level governing agency was subsequently imparted to the Managing Director through the Ministry of Foreign Economic Relations. Since about 90% of Chimtrade's business consisted of export and import operations (which were subject to approval or rejection by East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations), the recommendations of the Bulgarian authorities had actually the power of direct orders. "They did everything possible to hold us in short leash, as if we were one of the domestic state-owned organizations"- generalized Mr.T.Iliev.

On the other hand, Dow's officials used to be reluctant to interfere in Chimtrade's administration. They visited regularly Bulgaria and followed closely the developments at the joint venture. But according to Mr.T.Iliev, the representatives of the American company tried very cautiously to avoid any serious

conflict of interests with the ruling Bulgarian elite.

Furthermore, Mr.Minkoff took advantage of his position at Chimtrade in order to promote the idea for the introduction of the so-called "Efficacious Discipline Scheme" and "Multistage Approach" at the joint venture. Essentially, those were initiatives launched by the Central Committee of BCP in order, presumably, to improve the status of the "socialist production relations" in the country. The adoption of the "Efficacious Discipline Scheme" and "Multistage Approach" by the management of Chimtrade resulted, in practice, in imposing of strictly defined job specifications and rules of communication at the joint venture. Subsequently, Chimtrade's employees were not allowed to substitute for each other without formal permission, discuss work-related issues with their peers, or make reports to somebody else other than their immediate superiors. Mr.Minkoff generalized the experience accumulated at Dow's affiliate with the "Efficacious Discipline Scheme" and "Multistage Approach" in a report given to both Minister Pankov and Mr.Pirinski.

Initially, Chimtrade consisted of two functional departments: administration (Department Manager Mr.Minkoff) and sales (Department Manager Mr.Genov). But Minister Pankov believed that the organizational fusion at the joint venture of the trading operations, that is the commercial relations with non-Bulgarian companies, and the internal sales, that is the contacts with Bulgarian state-owned economic organizations, is inappropriate from the ideological and political point of view since it could lead to

"dangerous" shortening of the distance between the respective non-Bulgarian and Bulgarian firms (thus, jeopardizing the effective monopoly of the Bulgarian state over the foreign economic relations).

Consequently, Mr.T.Iliev and Mr.Minkoff, after having several meetings at the Ministry of Chemical Industry with Minister Pankov and Mr.Tsibranski, decided to break down the sales department and create two new functional departments at Chimtrade: trading and internal sales (TABLE No 3.1). Mr.Minkoff was put in charge of the trading operations (leaving the responsibilities for the administration function to Mr.Genov). Mrs.Dosseva was in turn appointed Department Manager of the internal sales function. She was known as a punctual administrator, wholeheartedly loyal to Minister Pankov.

Mr.T.Iliev assumed the responsibility for coordinating the operations of the organizationally separated then two sales departments of Chimtrade. Moreover, he developed a working schedule, based on the provisions and indicators of the five-year central plan for the Bulgarian chemical industry, which specified quantities of the products to be exported or imported by the joint venture, as well as, the approximate timing of the respective shipments. That schedule was correspondingly given to Mr.Minkoff and Mrs.Dosseva, who had to organize the work at their departments with due account to the elaborate instructions of the Managing Director.

3.1.2. Transfer of personnel.

The Standing commission of Monitoring Foreign Investments in Bulgaria and East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations perceived, in essence, the existence of Dow's affiliate in that East European country as both an opportunity and a threat. On one hand, the joint venture could contribute to the reinforcement of the artificially-created positive image of the communist authorities. On the other hand, however, that partially foreign-owned firm might become a conduit of dangerous for the ruling Bulgarian elite ideas. That's why, Minister Pankov, Mr. Pirinski, and Mr. Paparizov tried persistently to control all personnel changes at Chimtrade. Furthermore, Dow's affiliate was interested in earning the benevolence of the members of the aforementioned top-level Bulgarian agencies since its local performance used critically to depend on their willingness to provide open access to the domestic distribution network and sources of supply. Consequently, the Standing Commission of Monitoring Foreign Investments in Bulgaria and East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations used to have crucial influence on shaping the employment policies of the joint venture.

Moreover, Dow was formally consulted on most of the important appointments and personnel changes at Chimtrade by Mr. Paparizov, Mr. Ganchev, and some other senior Bulgarian state-government and company officials. But Dow's managers and, in particular, Mr. Frank

Popoff didn't show desire to take actively part in making the employment-related decisions concerning the joint venture. Nor did the representatives of the American company exhibit inclination to promote any personnel transfers at that time between Chimtrade and some other Dow's affiliates (TABLE No 3.3).

In fact, Mr. Popoff reportedly expressed opinion that it would be counterproductive for Dow to send its people on long-time assignments to the Bulgarian joint venture. In addition, Dow didn't appear to be interested in moving Chimtrade's employees outside of the East European country. As a result, the personnel of the joint venture used to grow very slowly and, worthy of noting, exclusively through hiring local managers and technical specialists. No Bulgarians were, besides, transferred to other branches of Dow.

Furthermore, most of the people, who joined Chimtrade's staff, reportedly, felt (at least in the beginning) that being employed Chimtrade, they would actually work for an "American company". Nevertheless, for many of the new employees it took only a short period of time to recognize the fact that Chimtrade was not an "American" company. It became clear, for instance, that the personnel policies at the joint venture did not follow the patterns of the western business culture. Most of my interviewees were disappointed when a total stranger was announced to fill one of the vacant managerial positions at Dow's affiliate. Besides, the newcomer was reported to have very little professional experience or any other appropriate qualification for the job (except for being a son of one former high-ranking official of Chimimport).

In addition, people at Chimtrade generally felt deprived of time for raising their level of professional qualification while on the job. Some of the interviewees, in fact, complained that nobody at that company used to encourage or help them to do so. "If you do not know (something), you have to learn it yourselves!" was a common saying there. Those, as well as several other similar occurrences, essentially demotivated Chimtrade's employees. Such developments actually provided evidence that the handling of personnel-related issues at Dow's joint venture was heavily influenced by the communist-type "business" ethics and norms.

3.1.3. Transfer of technology.

As early as 1985, a group of high-ranking Bulgarian state-government officials, including Mr. Paparizov, Mr. Pirinski, and Mr. Tsibranski (representing the Ministry of Foreign Economic Relations and the Ministry of Chemical Industry) stressed during a meeting with Mr. Fieler at the headquarters of Dow Chemical Europe in Horgen (Switzerland) that the Bulgarian authorities were interested in purchasing various fairly advanced product-embodied technologies from Dow. In particular, the representatives of the influential Bulgarian ministries wanted to obtain special high-performance plastics that could be used in the automobile and sports apparel industries.

Furthermore, it did not take a long period of time for the officials of Dow Chemical Europe to realize that the viability of

Chimtrade was eventually contingent on the predisposition of the Bulgarian authorities to that joint venture since the Ministry of Foreign Economic Relations and the Standing Commission of Monitoring Foreign Investments in Bulgaria could effectively impede any kind of foreign business activity in that East European country either directly (by using the capacity of their bureaucratic machines), or indirectly (by manipulating the availability of local supplies and/or restricting the access to the domestic distribution network). That's why, Dow's representatives tried reportedly to exhibit readiness to collaborate with the Bulgarian government.

In the beginning of 1986, Chimtrade was authorized by its American parent company to handle the deliveries of Voranol (Dow's trade mark for polyeter-based polyurethane systems, which had valuable industrial applications), Voralast (which was a Dow brand characterized as being a high-performance input in the footwear industry), Epichlorohydrin (special termoset resins), and Magnum ABS resins (Dow's trade mark for Acrylonitrile, Butadiene, and Styrene Terpolymer Resins that had high-quality mould flow characteristics) over to customers in Bulgaria (TABLE No 3.8). In fact, those four Dow products were considered fairly-advanced at that time. Besides, they were successfully used by leading western companies for the manufacture of world-class products. For instance, Adidas (Germany) took advantage of the high-performance characteristics of Voralast to improve the quality of the soles of its sneakers; Voralast and Epichlorohydrin were used by BMW (Germany) for enhancing sound/ vibration dampening properties to

horizontal panels of its cars; and Magnum ABS resins were put to use by Renault (France) to improve the quality of Renault Express van's large and complex front grill.

Eventually, Dow's joint venture began supplying Voranol and Voralast to Verila Co. (a state-owned firm, which had been chosen by the Bulgarian authorities to become a national center for the manufacture of high-quality sports apparel), as well as, Voranol, Epichlorohydrin, and Magnum ABS resins to Vida Co. (another state-owned firm that had also been designated by the Bulgarian government as a site for the manufacture of some special products).

The friendly gesture of Dow did not remain unnoticed by the senior officials of the Ministry of Foreign Economic Relations, the Ministry of Chemical Industry, and Chimimport. Consequently, Minister Pankov and Mr. Ganchev sent a letter of thanks to Mr. Frank Popoff. The CEO of Dow was also invited to pay a formal visit to Bulgaria as a guest of the state government. Incidentally, the Standing Commission of Monitoring Foreign Investments in Bulgaria took up a negative attitude towards the offer of Sandoz (Switzerland) to establish a joint venture with some local firm in that East European country. The official pretext for that position of the influential Commission was that Bulgaria should try to diversify its international economic contacts, presumably, in order to avoid too great dependence on the companies from any one western country (at that time, there already was one local Bulgarian-Swiss joint venture in operation).

But irrespective of Dow's conciliatoriness and the noisy proclamations of the Bulgarian authorities, the transfer of Dow product-embodied technologies to the East European country did not turn out to be successful. Verila Co. never managed to produce quality sneakers, while the manufacture of automotive body parts and panels at Vida Co. proved to be a total failure.

Actually, after the widely-publicized campaign around the initiation of those two projects finished, the commitment of the Bulgarian ruling elite gradually subsided. So, the production processes at both Verila Co. and Vida Co. fell short of incorporating adequate process- and people-embodied technologies. Besides, the low technological level and deficient structure of the Bulgarian industry, in general, made it extremely difficult for the results of one, two, or even several cases of transferring modern foreign technology to the East European country to have a wide-spread positive effect on the local production capabilities.

3.1.4. Transfer of business operations.

"The interference by the Bulgarian government in the management of our business operations used to be something usual, a fact that we had to live with"- stressed Mr.T.Iliev. In the beginning of its existence, Chimtrade was not actually considered an independent company, but rather a "fashionable toy" by the Bulgarian authorities. The presence of a Dow's joint venture in

Bulgaria had to provide a piece of evidence that the ruling communists were really determined to fulfil their widely-advertized program for progressive socio-economic development of that country.

So, Chimtrade was administratively encouraged by the Bulgarian authorities to do business exclusively with preselected "prestigious" chemical associations and companies. Those "prestigious" local companies used to be chosen by the Standing Commission of Monitoring Foreign Investments in Bulgaria and East-West Industrial Cooperation Department of the Ministry of Foreign Economic Relations on the basis of the ideologically and politically motivated decisions of the Central Committee of BCP.

For instance, in the end of 1985 Mr. T.Iliev was asked by Mr. Paparizov and Mr. Pirinski to attend a three day close-circle conference at the Ministry of Foreign Economic Relations on finding appropriate ways of enhancing the role of the local manufacturing associations in the Bulgarian foreign trade activities. That high-level conference was organized in response to the "new" then policies of the Central Committee of BCP to promote further the strengthening of the monopoly positions of domestic manufacturing companies in the Bulgarian economy. It was consequently imposed on Mr.T.Iliev to develop a plan for stimulating the cooperation between Dow and Verila Co. (a local manufacturing firm, which was used as a show-up case by the central authorities. According to Mr.T.Iliev, that task proved eventually to be very difficult. In particular, it was very hard to "bridge the distance between the

major concerns" of those two companies.

On one hand, the managers of Dow Chemical Europe could not understand what had motivated the Bulgarians to insist so tenaciously on making Verila Co. the main local partner of Dow. After all, there were other Bulgarian companies and economic associations at that time, like the Industrial and Agricultural Association "Vratza", or Pharmachim Co., which were more familiar than Verila Co. to the businessmen in West Europe. Moreover, the representatives of Dow had studied the information of IIASA (headquartered in Vienna, Austria) regarding the production capacity of industrial facilities in East European countries, including Bulgaria. Hence, the involved Dow's officials knew that it would have been relatively more beneficial to both the Bulgarian economy and the European operations of Dow, if, instead of pairing with Verila Co., the American company had established close contact with some other local economic corporation, like the Chemical Complex "Devnia", or the Chemical Complex "Dimitrovgrad", which had considerably greater production capacity than the formally favored firm.

On the other hand, the representatives of Verila Co. were very anxious to secure a channel for the export to West Europe of products, manufactured by their company. They could not also comprehend what actually held up Dow's response to the proposal for establishing an exclusive business relationship between the American firm and Verila Co.

So, Mr.T.Iliev had actively to mediate between Dow and Verila

Co. for more than one year before those firms signed a mutually acceptable agreement for cooperation. In accordance with the provisions of that contract Verila Co. gave Dow's joint venture the right of becoming an exclusive supplier, which meant that every time when Verila was on the market to buy a product, Chimtrade was the first company to be requested to secure the necessary input. In turn, Dow took the obligation to help the Bulgarian manufacturing firm export some of its products to the West. Besides, the American company gave officially its permission for Verila Co. to become a shareholder of Chimtrade. The business relationship between Verila Co. and Dow, consequently, expanded. In greater detail, Chimtrade delivered for Verila about 1000 mt propylene oxide (a major input for the manufacturing operations of that state-owned firm) from Dow only in 1986. Worthy of noting, that was 3.5 times more than the supplies of the same product from Dow's facilities in the previous year. In addition, the imports for the Bulgarian manufacturing company through Chimtrade of Voranol and Voralast increased substantially too.

Chimtrade began also exporting (directly or through Dow's trading departments) goods from Verila Co. with an estimated worth of about \$1.5 million per year. Among the most popular export articles were DOP (dioctylphthalate), Veripol (Verila Co.'s trade mark for polyols), polyester resins, etc. Moreover, due to the assistance of Chimtrade, respectively Dow, Verila managed to sustain the volume of its exports in spite of the deteriorating image in the West of the Bulgarian products because of some serious

3.2. Chimtrade in 1991.

3.2.1. Organizational structure.

There are two equally important top-level management positions presently at Chimtrade: the Managing Director and the Distribution and Sales Manager (TABLE No 3.4). Mr.I.Iliev is the Managing Director of the joint venture. Before coming to Chimtrade in the end of 1990, he had worked as a senior international trade expert for Chimimport. Actually, he has replaced Mr.T.Iliev (another Chimimport representative), who has been recently moved to Dow Chemical Austria. Mr.Mildner is currently the Distribution and Sales Manager of Dow's affiliate in Bulgaria. He has worked for more than ten years for different branches of Dow. Before joining the staff of Chimtrade, he was a Department Manager at Dow Chemical Europe. Worthy of noting, the position of the Distribution and Sales Manager of the joint venture has been created lately. It has been explicitly designed, at the insistence of Dow, to provide an opportunity for a senior representative of the American parent company to take immediately part in the decision-making process at Chimtrade.

At present, the Bulgarian authorities do not try to interfere directly in the internal affairs of the joint venture. "1990 with its sweeping political changes brought us eventually freedom"- said Mr.T.Iliev.- "Now we are gradually becoming a normal company

quality and reliability problems at that time.

Nevertheless, the representatives of Dow remained puzzled by the business approach of their Bulgarian counterparts. Certainly, the managers of Dow Chemical Europe were satisfied with the privileged treatment enjoyed by their company in Bulgaria. But on several occasions they reportedly expressed concern regarding the way in which the business operations of Chimtrade were managed. Eventually, the involved officials of the American company displayed inclination for assisting the Bulgarian affiliate of their firm in sustaining the overall volume of its operations. Simultaneously, the people from Dow Chemical Europe exhibited open unwillingness to support even a modest increase in either the geographical scope or value-adding range of Chimtrade's business operations (TABLE No 3.5; TABLE No 3.6).

Besides, the efficiency of the local operations of Dow's joint venture was hampered because of the lack of normal business infrastructure in Bulgaria -- most of the government officials and company managers in that country had, in fact, very little knowledge of the modern business management; business schools were actually missing; and the proliferation of rational knowledge was strictly controlled by the central communist-dominated government. As a result, Chimtrade did not have much of an incentive, according to Mr.T.Iliev, to seek to increase either the volume or the scope of its operations. So, the revenues of Dow's affiliate stagnated at about \$3 million per year (TABLE No 3.10).

functioning in an economy that also struggles to become normal. Certainly, it is difficult for us to do business in today's Bulgaria, but, at least, we are now safe from the stifling control of the previous state administrations".

Almost all important decisions at Chimtrade are currently taken by Mr.I.Iliev and Mr.Mildner in consultation with the concerned department managers and functional specialists. Thus, Mr.Genov, who is a Department Manager with responsibilities for the internal sales of the joint venture, has recently suggested that Chimtrade should develop a program for establishing closer ties with the emerging business community in Bulgaria. Consequently, a special task force has been formed to study the issue. The task force, headed jointly by M.T.Iliev and Mr.Mildner, has eventually found that Chimtrade can, and should, take advantage of the existing forms of communication with the other members of the local business community. For instance, it has been recommended that Dow's affiliate should join the Club of the Joint Ventures in Bulgaria and some other business associations.

So, Chimtrade has become a member of the Club. As a result of the participation in the work of this business association, the company is reported both to contribute to and to benefit from the exchange of information about the likely future developments in the business environment in Bulgaria. Besides, Chimtrade is an active participant in the symposia on East-West industrial cooperation, which are regularly organized in Varna (East Bulgaria).

In addition, shortly after Mr.Minkoff left Dow's affiliate

(he was appointed a Department Manager at the Ministry of Foreign Economic Relations) Mr.T.Iliev and Mr.Mildner issued jointly a statement repudiating the "Efficacious Discipline Scheme" and "Multistage Approach" at Chimtrade. Accordingly, the employees of the joint venture were encouraged to share with one another, irrespective of management ranks or departmental affiliation, their impressions gathered while serving customers, buying from suppliers, or just visiting other companies and government agencies.

Furthermore, the decision-making process at the joint venture has increasingly been influenced by Dow's new policies with regard to business activity in East Europe. As Mr.Rene Wildi, a Vice President of Dow Chemical Europe, has pointed out in a recent interview, Chimtrade is urged to adopt management schemes that are in line with Dow's business philosophy and major regional objectives. "We would like to participate as a partner of choice in the development of the East European economies and their expanding markets through an interrelated five-pronged approach"- specified Mr. Wildi. His plan has included increased commercial access to East European markets from Dow facilities; procurement of feedstock-related raw materials from East Europe for use by Dow; procurement of basic chemical raw materials for use in Dow plants; global marketing of East European goods by Dow trading departments; and selective investment by Dow in East Europe.

Consequently, the degree of functional differentiation within Chimtrade has increased (TABLE No 3.2). There are three different

sales-related functions presently at the joint venture: trading (for negotiating business deals in feedstock-related raw materials and basic chemicals for use in Dow plants); field sales (for international marketing of Bulgarian products); and internal sales (for facilitating the deliveries of Dow products over to customers in Bulgaria). Moreover, both field sales and internal sales are organizationally subdivided into three separate product groups: agricultural chemicals, polyurethanes, as well as, olefins and styrenics (TABLE No 3.2). In addition, a technical service and development department has been established at Chimtrade to handle Dow investment projects in that country.

The joint venture is trying now to achieve a certain degree of integration of its functions. That's why, field sales and internal sales have been organizationally consolidated into one functional sector at the company. In addition, they have been obliged to report directly to Mr.Mildner. Mr.I.Iliev, in turn, has taken upon himself the task of monitoring and coordinating the operations in the trading function. And to facilitate the link between trading and field/internal sales functions, there is a liaison secretary at Chimtrade, who is responsible for handling the whole related documentation. Moreover, all people performing duties for the sales functions work at present in adjacent premises.

Besides, Chimtrade's management has tried to integrate the technical service and development function with the other business functions of the joint venture too. For that purpose, one and the

same person at Chimtrade (Mr. Blagoev) is responsible on a permanent basis for both the technical service and development function and for one of the most important product groups in the field sales function -- the agricultural chemicals.

Dow's influence on the management of the Bulgarian affiliate has also been manifested in the introduction of a management information system at Chimtrade (following the established organizational patterns at the American parent company) and the development of a public relations program. All communications within Chimtrade are now facilitated by the operation of an internal computerized network. In addition, much of the paper turnover at the joint venture is standardized according to Dow formats. Thus, all sales inside Bulgaria, are carried out using the so-called "Dow Customer Price-Request Forms". The level of document unification at Chimtrade will be increased even further in 1992, when Dow's Customer Service Center in Vienna will become operational. This is expected to improve the quality of communications in Dow's world-wide network (and at Chimtrade, in particular).

Besides, Chimtrade has been one of the first firms, doing business in Bulgaria, to take seriously care of its public relations. Dow's influence in this respect might be considered crucial, since the establishment and maintenance of a positive company image was not a part of the East European business tradition until a little while ago. The joint venture has recently decided to allocate about \$100 000 annually (which is considered

substantial in Bulgaria) in order to back financially its public relations program. This program provides for the sponsorship of prestigious sports events and environment-protection initiatives, as well as, selective advertizing using the services of the mass media. So, Chimtrade has, in fact, become a regular sponsor of soccer games between the Bulgarians paying for foreign clubs, and teams of local stars. Dow's joint venture has also organized a dozen of Household Hazardous Waste Days throughout the country.

3.2.2. Transfer of personnel.

The appointment of Mr.Mildner to the position of the Distribution and Sales Manager of Chimtrade was a notable sign that some radical changes in the personnel policies of the joint venture would follow soon. Moreover, that was the first case of giving executive power in a locally-based firm to a representative of a western company. Mr.Mildner managed shortly to establish close working relations with Mr.T.Iliev and the other members of Chimtrade's staff.

As a result, he reportedly sensed the need for retraining of the personnel of the joint venture with due account to the rapid developments in the immediate business environment. Actually, most Chimtrade's employees had good technical qualifications, but virtually none of them possessed relevant market-oriented knowledge. That's why, Dow Chemical Europe adopted a program, at the recommendation of Mr.Mildner, for urgent retraining of

Chimtrade's personnel at Dow's facilities in Horgen (close to Zurich, Switzerland).

Mr.T.Iliev was included in the first group of Bulgarian trainees to be instructed in the modern management concepts outside of the East European country. He reportedly showed excellent understanding of the training course material. Besides, his knowledge of the ways to do business in East Europe was found to be exceptional. So, the management of Dow Chemical Europe decided to offer him the position of a Senior Advisor on East European Affairs to the Director of Dow's affiliate in Vienna, Austria. Shortly after Mr.T.Iliev's reappointment, four other former employees of Chimtrade received new assignments at Dow's branches in Padova and Correggio (Italy).

Furthermore, the Bulgarian central authorities have recently refrained from interfering directly in the formulation of the personnel policies of the joint venture. The representatives of the Bulgarian shareholder companies have however remained interested in sending their people to join Chimtrade's staff. Note worthy, Mr.I.Iliev has become the Managing Director of Dow's affiliate mostly because of the persistent support of his nomination by Mr.Belov, who is the present General Manager of Chimimport.

In addition, Dow has responded to the changing characteristics of the business environment in Bulgaria by sending some of its most experienced practitioners to assist the joint venture in the organization of seminars for company managers and state

administrators on issues of technological and investment policies. The participants in those seminars have been instructed using most advanced teaching methods in order to gain a better knowledge of the technological and marketing potential of Dow products, supplied through Chimtrade. The joint venture has also been involved in business consulting in Bulgaria lately.

The representatives of the American company have however encountered some serious difficulties in their communication with local managers. For instance, Dow's consultants have reportedly been refused cooperation on several occasions, especially with regard to providing information on the current intracompany arrangements, by their local clients, who seem to be inherently suspicious of the ways in which the westerners try to carry out their service. Moreover, the non-Bulgarian representatives of the American parent company have frequently failed to comprehend the logic of the local business practices. Eventually, the transfer of foreign managers and functional specialists to Chimtrade by Dow has still remained very limited. As a matter of fact, only 7 such consultants and instructors were transferred to Bulgaria until April of 1991.

3.2.3. Transfer of technology.

One of the first issues on which Mr. Mildner, in his capacity of Distribution and Sales Manager of Chimtrade, focused his attention was the troubling record of unsuccessful technology

transfers through Dow's joint venture in the past. As a result, a task force has been established at Chimtrade to deal urgently with that apparent problem. Mr. Mildner and Mr. T. Iliev have become co-chairmen of the task force, which has notably included people from all departments of Dow's affiliate.

Based on the information reported by Mrs. Gevrenova (the new Department Manager of internal sales) and Mr. Blagoev (the Department Manager of technical service and development functions), the group of Chimtrade's managers and technical specialists has concluded that the poor technology transfer record of their joint venture stemmed essentially from the functional incompatibility of the imported Dow product-embodied technologies with the industrial equipment available at the respective Bulgarian plants, as well as, the lack of appropriate managerial expertise there.

Besides, the task force has established that the local clients of Chimtrade have mostly been interested in acquiring market-oriented knowledge lately. On the other hand, the requests for transferring advanced product-embodied technologies through Dow's affiliate to customers in Bulgaria (both state-owned economic associations and private companies) have been found to be made recently on just very rare occasions.

Consequently, Chimtrade has adopted a new approach towards international technology transfer focusing on the processual and complex nature of this activity. In greater detail, Dow's joint venture has become increasingly involved in transfers of conventional technical and management know-how to the East European

country, while the transfers of modern product-embodied technologies have been carried out only occasionally (TABLE No 3.9).

For instance, Chimtrade has taken actively part in the improvement of the industrial manufacture of various organic chemicals in Bulgaria, like Dowanol AS. This project has a substantive positive effect on raising the efficacy of the production processes at the involved local manufacturing facilities since it has, essentially, replaced the inefficient production of glycol ethers in Bulgaria with the manufacture, carried out according to the modern international standards, of organic chemicals which have been licenced by Dow. The marketing potential of this business deal is about \$600 000 annually, while Lackprom Co. and the state-owned plant Gavril Genov have been the major buyers inside Bulgaria of the new domestically-provided product. In order to facilitate the transfer of the process- and people-embodied technologies related to this project, Chimtrade has organized several meetings with the participation of technical experts from Dow and Bulgarian engineers from the involved manufacturing plants. Besides, Chimtrade has taken care of supplying technical data, literature, and industrial samples to Bulgaria.

Chimtrade has also helped Verila Co. to acquire technical and management know-how, (using Dow's world-wide business connections) and to receive financial support in order to establish a laboratory for development of polyols of higher quality than the polyols

traditionally manufactured in Bulgaria. In order to assist the successful transfer of technical knowledge in this case, Chimtrade has arranged for Verila Co. to send several engineers to the U.S. for practical training. Training courses were about one-month long, and the Bulgarian engineers were divided into three groups. Since each of those groups had a different training schedule, Verila Co. managed, without disrupting its ongoing production operations, to send its specialists to a high-quality training course. At present, Dow's manufacturing plants in Correggio (Italy) and Stuttgart (Germany) are the main users (through Chimtrade) of the jointly developed and Bulgarian produced polyols.

Besides, Chimtrade has organized the purchase from France of technical equipment and know-how for the production of 3.5" diskettes in Bulgaria in accordance with the accepted international standards for quality and reliability. There are also plans for Chimtrade to help for the development of VHS cassette production lines at Isot Co. in the nearest future.

Furthermore, technological experts from Chimtrade regularly organize briefings for representatives of Bulgarian companies, in order to introduce some new Dow product ideas, or just to provide information on some alternative industrial applications of chemical inputs, already popularized in the Bulgarian market by the joint venture.

To be sure, specialists from Dow's world-wide network have frequently assisted the local affiliate for achieving a more efficient technology transfer to the East European country. On one

hand, the American company has invited Bulgarian trainees to its courses in Horgen (Switzerland), Dusseldorf and Frankfurt (Germany), and Vienna (Austria). On the other hand, Dow's experts have visited Bulgaria to help with technical service and application development of products to be lately manufactured in Bulgaria, or some other East European countries.

3.2.4. Transfer of business operations.

Since 1989 the conditions for doing business in Bulgaria have rapidly been changing. The communist-style system of economic management has been, by and large, eliminated, and most administrative limitations to the business operations of the joint venture have essentially been removed. In such circumstances, Chimtrade now has the goal, according to Mr. I. Iliev, of increasing the profitability of its business operations through direct sales of Dow products, selective promotion of Bulgarian commodities in foreign markets, and development of consistent investment policies. The joint venture has also taken the commitment to reinvest its profits in Bulgaria in order to facilitate the up-grading of the existing production lines (thus, generating new exports for the respective Bulgarian companies and commissioner's fees for itself), or to develop entirely new production processes. Worthy of noting, Dow's affiliate has recently been involved in several business deals of significant importance for the Bulgarian economy and Dow's European operations. For instance, Chimtrade has introduced in

Bulgaria several Dow trade brands, like Dursban F and Nurelle D (Insecticides), Gallant F and Lontrel 300 (Herbicides), Primacor (Adhesive Copolymer), Vinyltoluene (Monomers), and Propylene Glycol (Urethanes) (TABLE No 3.9). The respective deliveries (with an approximate annual worth of \$10 million) have been directed to an increasingly diverse group of customers: Isot Co., Pharmachim Co., Kom Co. (Berkovitsa, North Bulgaria), Sportprom Co., state-owned plant Zvezda, state-owned plant Vazhod, etc.

But local business operations of Chimtrade have still remained being influenced by the ideological and political distortions, typical of the business environment in the East European country. In greater detail, the acute financial crisis in Bulgaria (prompted by the imposing of a moratorium on all payments on the huge \$11 billion foreign debt at the order of the government, as well as the depletion of almost all hard currency reserves of the country due to a politically motivated consideration -- the desire of the Socialist Party's government to save the standard of living in Bulgaria from a significant deterioration at least until the next parliamentary elections); the legacy of the communist-style economic management that used to be dominated by the Marxist-Leninist ideological fallacies, such as the claim that labor was the only productive factor, which has eventually materialized in a chronic underinvestment in capital goods in Bulgaria (itself being a major cause for deteriorating quality of Bulgarian products and for numerous industrial accidents and, respectively, shutdowns of local plants for safety reasons); and the instability in the

political system because of the open hostilities between the gradually losing power communists and still inexperienced supporters of the pro-democracy parties are just a few of the factors, according to Mr.I.Iliev, for the difficulties which Chimtrade has recently encountered in doing business with Bulgarian companies and state-owned organizations.

Furthermore, Mr.Mildner have been frequently frustrated by the behavior of local managers. For instance, he could not comprehend what made Verila Co. order a significantly increased quantity of propylene oxide in the beginning of 1991 (in comparison to the quantity which had been supplied to that company in 1990), while the Bulgarian chemical firm was, in fact, incapable of paying even for some of its previous deliveries from Dow (which caused serious financial troubles to Chimtrade). Besides, the local market became smaller and smaller at that time.

It proved that Mr.Kotsev, who was appointed the General Manager of Verila Co. in the end of 1990 after 10 years of service as a senior-level official for the Ministry of Chemical Industry, had privately concluded a business agreement for the supply of propylene oxide to newly-established then firms of three of his former colleagues from the Ministry. But that undertaking did not turn out to be successful because of several too big financial and marketing miscalculations of the involved entrepreneurs. Consequently, the financial problems of Verila Co. and, respectively, Chimtrade became even more serious. So, Mr.Mildner found himself compelled to ask the management of Dow Chemical

Austria for help. In order to prevent a large-scale scandal (after all, Veria Co. was the Bulgarian co-owner with the biggest share of Chimtrade's equity), Dow's officials proposed a specific plan, called "evidence account", to be adopted for settling the financial obligations of Verila Co. towards the joint venture. As a result of that business arrangement, the Bulgarian state-owned company has managed in the face of its acute financial problems to secure a regular supply of indispensable inputs (e.g. propylene oxide and Voranol) for its ongoing manufacturing operations. But due to the previous troubles in that case, as well as, some other similar incidents, Dow's representatives have become reluctant to authorize an increase of the general volume of Chimtrade's local operations at present. "Actually, there is a decrease in the internal sales of about 1/3 in comparison to what we were given the right to deliver in 1990."- specified Mr.I.Iliev.

Obviously, one way of coping with the present difficulties is to increase the scale and scope of the business operations outside Bulgaria. Hence, Chimtrade is currently involved in business operations with partners not only from that country, but also from India, Pakistan, Israel, Italy, France, and the former U.S.S.R. (TABLE No 3.7) For instance, Chimtrade has recently bought technical equipment from Press Industria (Italy) for Verila Co. Chimtrade also handles the exports to France and the former Soviet Union of 3.5 inch computer diskettes, manufactured by the plant of Isot Co. in Pazardjic (South Bulgaria), and, at the same time, the joint venture helps the Bulgarian company with the imports of ABS

resins (acrylonitrile butadiene styrene terpolymer, i.e. specialized plastics) from Dow. Furthermore, Chimtrade carries out the export of about 12 million 5.25 inch diskettes annually (approximately \$2.3 million), as well manufactured by Isot Co., to the former U.S.S.R., India, Pakistan, etc., and the joint venture supplies back the Bulgarian company with some valuable inputs, like ABS resins and Tyril (Dow's trade mark for styrene-acrylonitrile copolymer) with an annual worth of about \$1 million.

In addition, Chimtrade tries to diversify its operations both functionally and on "by-product" basis. For example, the joint venture has purchased repacking line for pesticides. The installation has been assembled at the chemical plant of the Industrial and Agricultural Association "Vratza" (in North Bulgaria), on premises, which have been rented for the purpose by Chimtrade. The total cost of the project is estimated at \$150 000, of which \$30 000 has been paid by Chimtrade just for the purchase of the industrial installation. This way, the joint venture has made an important step in the direction of diversification beyond the sales operations. Besides, operating a complete line of automatic bottle-filling machines for repacking of pesticides, Chimtrade is able to respond to the unsatisfied consumer demand of the private farms in Bulgaria (which are traditionally of small or medium size) for receiving imported agricultural chemicals into more appropriate smaller-size amounts. Moreover, this business deal has brought about several direct and indirect benefits for Dow: 30% increase of Dow's sale of agricultural products in the Bulgarian

market; effective promotion of Dow's trade marks in Bulgaria (because the more farmers try Dow's products now, the more likely the expansion of Dow's client base in the future); some potential savings for Dow since less investments in repackaging lines will be necessary in the future to serve the needs of the customers in Bulgaria.

Furthermore, Chimtrade has recently made a decisive step towards the creation of its own R&D operations. At the suggestion of Mr. Blagoev (the Department Manager of the technical service and development function) the joint venture has worked out a program for carrying out customer-oriented modifications of the products, supplied locally by it. The adoption of this program has actually been prompted by the aggressive marketing in Bulgaria of agricultural chemicals (which have been formulated to meet the local consumer demand) by several West European firms, including Hoechst (Germany), Bayer (Germany), and Santoz (Switzerland). Eventually, Chimtrade had signed a contract with the Department of Chemistry of the University of Sofia providing for a group of Bulgarian scientists to be employed on a part-time basis by Dow's joint venture. This contract-research group has, for instance, developed together with people from Separation Systems Co. (a Danish firm which is affiliated with Dow) special customer-tailored membranes for industrial application in Bulgaria.

In response to the turbulent changes in the immediate business environment, Chimtrade has been helped by its American parent company to improve the effectiveness of its administrative

operations too. For instance, the joint venture has been assisted to develop a flexible financial management system. Chimtrade has subsequently transferred the bulk of its assets to the U.S., and it has now deposits at several American banks, e.g. at National Westminster and Manufacturers Hanover, New York. The preferred form of investment is three-month CDs. This way, Chimtrade has managed both to receive high-level bank interests and to achieve a reasonable degree of financial flexibility. Moreover, while the moratorium, which the Bulgarian State Bank has imposed on all payments in hard currency, has certainly affected Chimtrade's operations (for instance, the BSB has recently stopped the remittance of \$1 million due as a payment for supplies to Bulgaria, handled by Chimtrade), the joint venture is still able to keep its business going.

Chimtrade's business operations have also expanded beyond the deals in chemical products, as Dow's affiliate has become involved in transactions with pharmaceutical, electronic, and footwear articles. For example, Chimtrade handles the marketing both inside and outside Bulgaria of a new high-performance polyurethane system, which has been jointly developed by Dow and Verila Co. in order to provide insulation services in construction industry. Besides, Chimtrade assists the delivery of polyurethane systems for shoesoles and specialized machinery in order to help the production in Bulgaria at Sportprom Co. and state-owned plant Kotcho Chestimenski of sports shoes, sports garments and other goods, which can prove sellable in the western markets.

TABLE No 3.1

ORGANIZATIONAL STRUCTURES OF DOW CHEMICAL, HONEYWELL AND FANUC SUBSIDIARIES IN BULGARIA (1986)

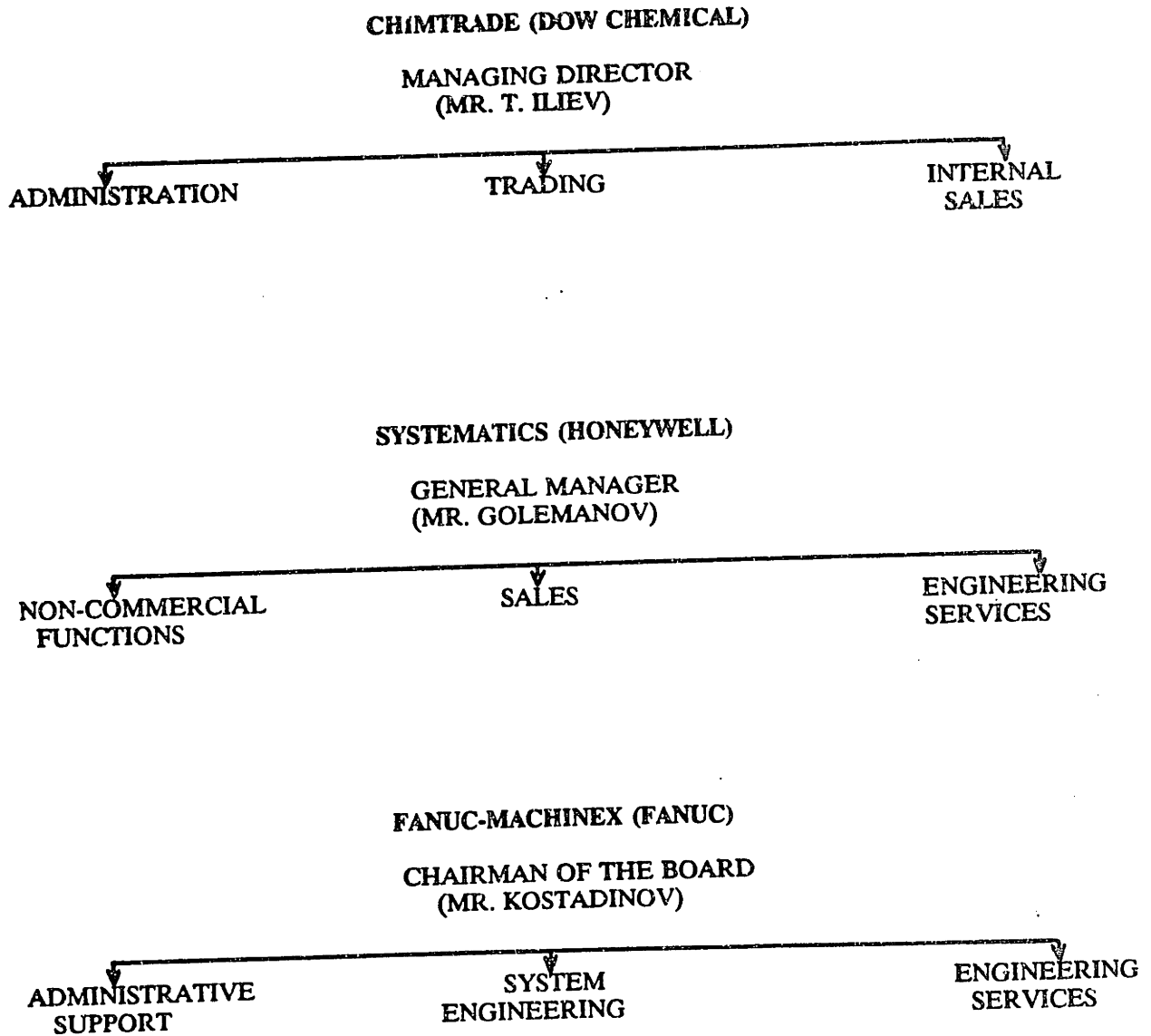


TABLE No 3.2

ORGANIZATIONAL STRUCTURE OF DOW CHEMICAL SUBSIDIARY IN BULGARIA (1991)

CHIMTRADE (DOW CHEMICAL)

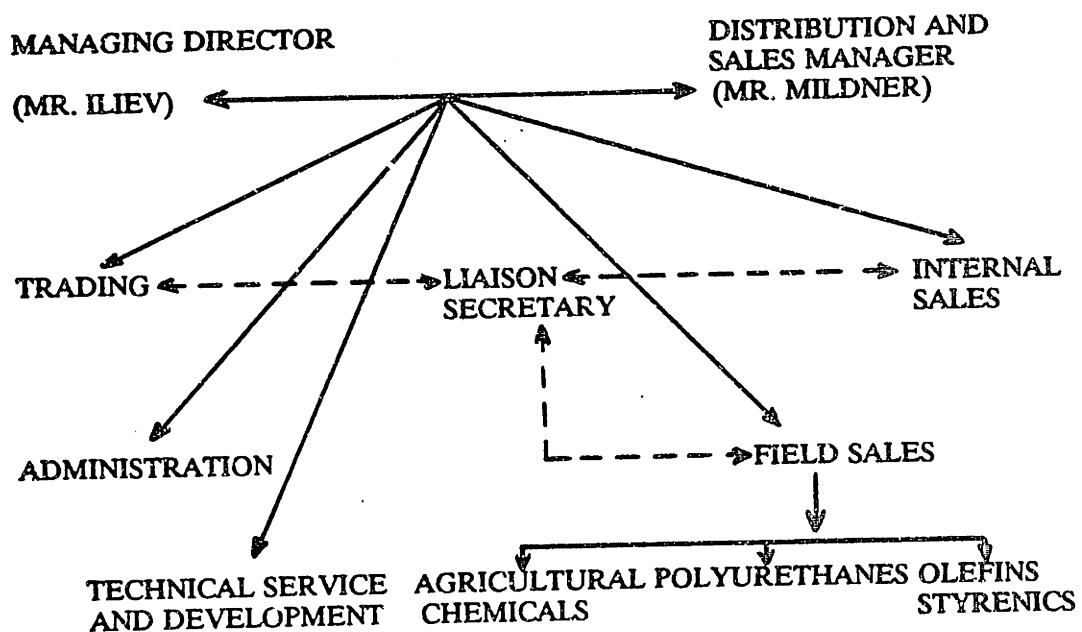


TABLE No 3.3
CHIMTRADE
PERSONNEL COMPOSITION (1986)

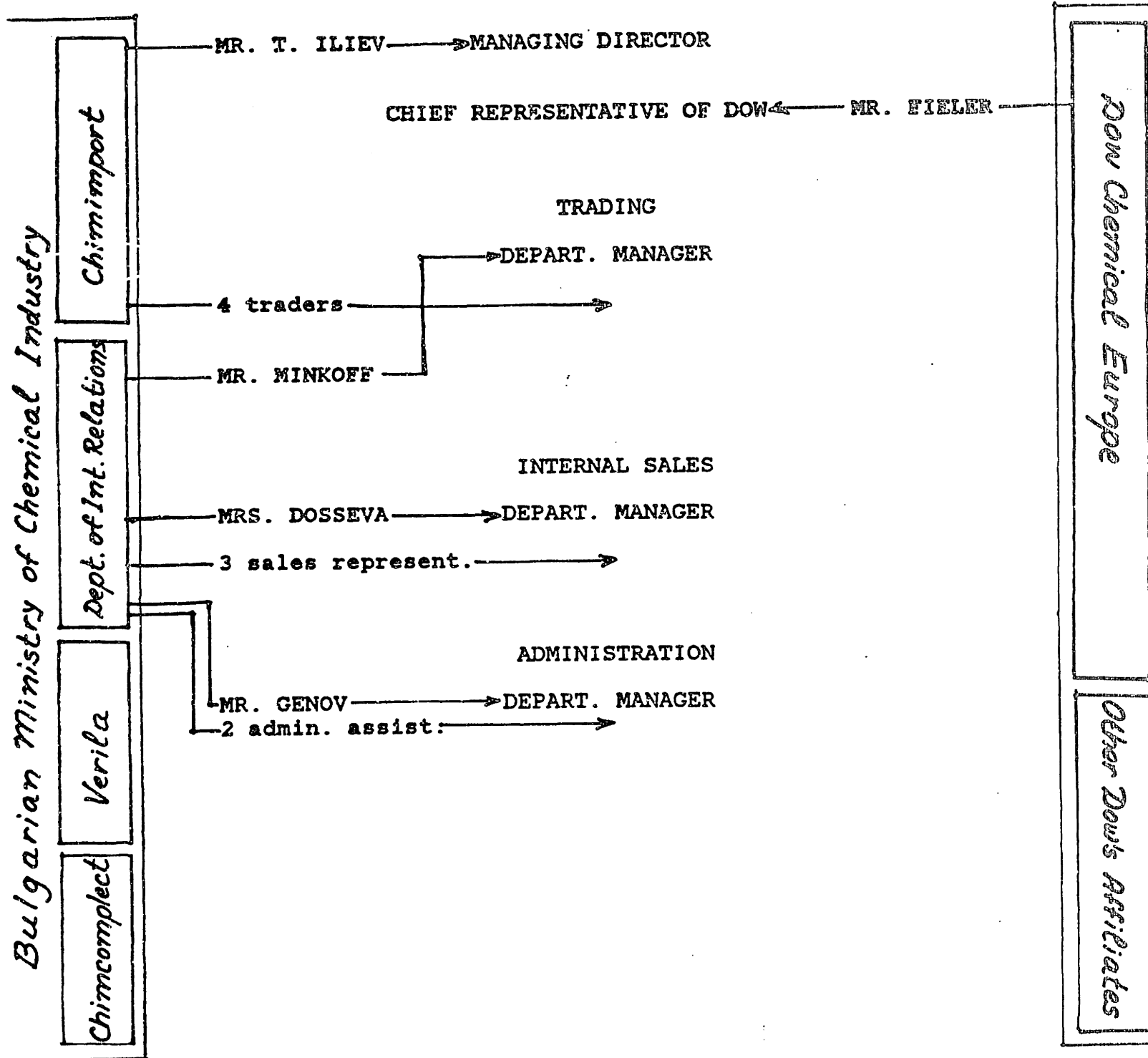


TABLE No 3.4

CHIMTRADE

PERSONNEL COMPOSITION (1991)

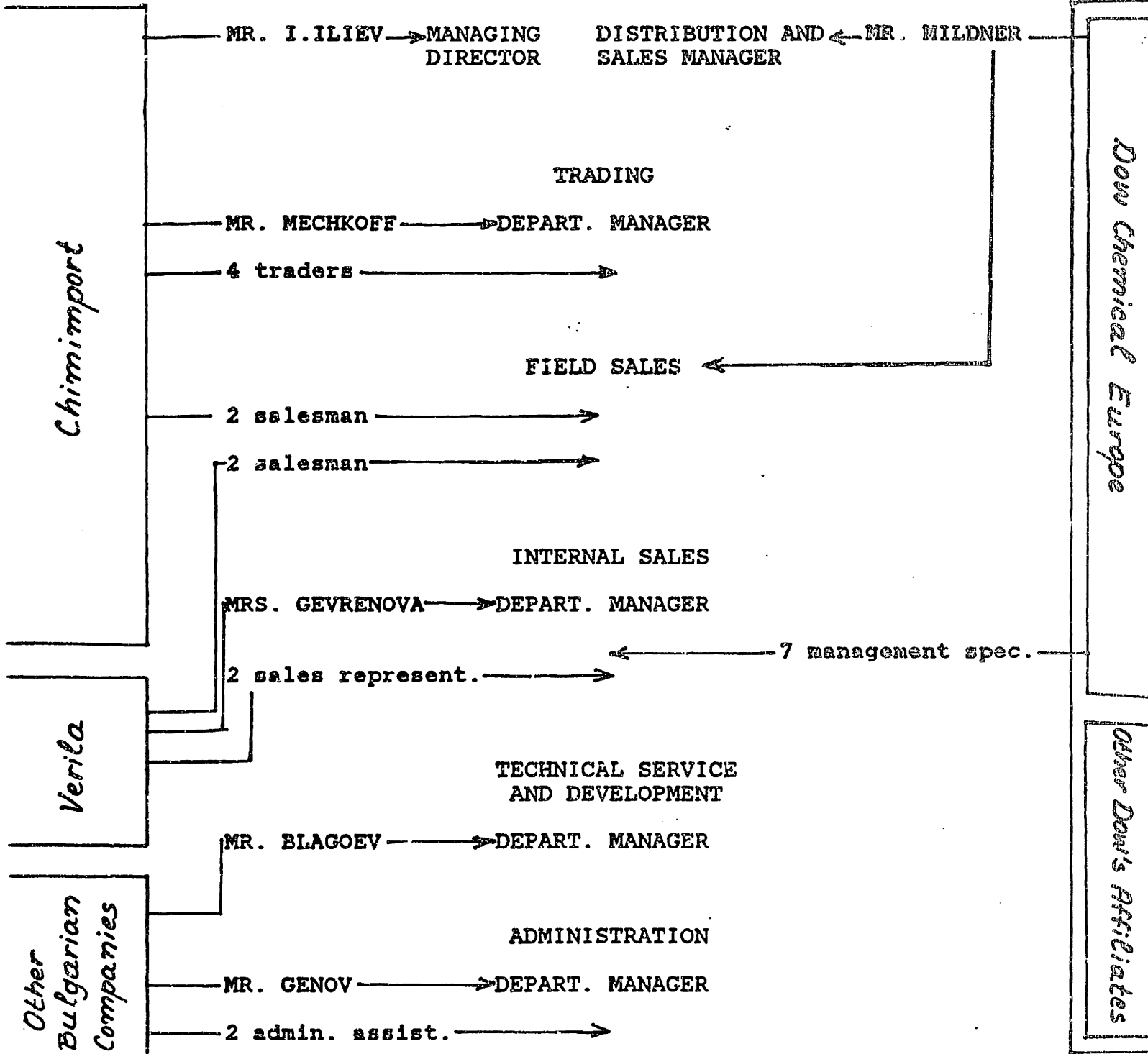


TABLE No 3.5

CHINTRADE

VALUE-ADDING SCOPE

VALUE-ADDING STAGE	R&D	ENGIN	PROC	MANUF	ASSEM	MARK	DIST	RET
YEAR								
1986			X			X		
1991	X		X		X	X	X	

R&D -- Research and development

ENGIN -- Engineering

PROC -- Procurement

MANUF -- Manufacturing

ASSEM -- Assembling

MARK -- Marketing

DIST -- Distribution

RET -- Retailing

TABLE No 3.6

CHIMTRADE

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1986

COUNTRY OF OPERATION	BULG	USSR	HUNG	GERMAN
SITES				
SITE 1	SOPIA	OSTROGOZH	SZEGED	DUSSELD
SITE 2	VIDIN	TROISK		
SITE 3	PLOVDIV			
SITE 4	DIMITROVGRAD			
SITE 5	ROUSSE			

TABLE No 3.7

CHIMTRADE

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1991

COUNTRY OF OPERATION	BULG	EUROPE	USSR
SITES			
SITE 1	SOFIA (VERILA)	HORGEN (SWITZ)	PENZA
SITE 2	SOFIA (ISOT)	PADOVA (ITALY)	
SITE 3	BERKOVITSA	CORREGGIO (ITALY)	
SITE 4	ROUSSE	DUSSELDORF (GERMANY)	
SITE 5	PAVLIKENI	FRANKFURT (GERMANY)	
SITE 6	PLOVDIV		
SITE 7	VRATZA		

TABLE No 3.8

CHIMTRADE

TECHNOLOGY TRANSFER
1986

TYPE OF TRANSFERRED TECHNOLOGY	PRODUCT-EMBOD	PROCESS-EMBOD
MAGNITUDE OF APPLICATION-TIME LAG (IN YEARS)		
1 - 4		
	VORANOL VORALAST EPICHLOROHYDRIN MAGNUM ABS RESIGNS	
5 - 10		
10 +	PROPYLENE OXIDE	

TABLE No 3.9

CHIMTRADE

TECHNOLOGY TRANSFER
1991

TYPE OF TRANSFERRED
TECHNOLOGY

PRODUCT-EMBOD

PROCESS-EMBOD

MAGNITUDE OF
APPLICATION-TIME LAG
(IN YEARS)

1 - 4

5 - 10

10 +

DURSBAN F
NURELLE D
GALLANT F
PRIMACOR
PROPYLENE GLYCOL

KNOW-HOW FOR
DEVELOPMENT
OF TECHNOLOGY
INVESTMENT
POLICIES

KNOW-HOW FOR
IMPROVEMENT
OF MANUF OF
ORGAN CHEM

KNOW-HOW FOR
MANUF OF HIGH-
QUALITY
POLYOLS

TABLE No 3.10

**CHIMTRADE
ANNUAL REVENUES (IN THOUSAND \$)**

PRODUCT- BUSINESS AREA	AGRICULTURAL CHEMICALS	POLYURETHANES	OLEFINS STYRENICS
YEAR OF OPERATION			
1986	1060	2100	165
1991	2085	1050	150
TOTAL 1986 --	3325		
TOTAL 1991 --	3285		

CHAPTER FOUR: FANUC-MACHINEX (FANUC BULGARIA)

OVERVIEW

The joint venture Fanuc-Machinex has been the first affiliate of Fanuc Ltd. in East Europe and the first investment of a western company in Bulgaria since World War II.

At the time of its establishment, Fanuc-Machinex had a statutory capital of \$700 000. Besides, the capital of the joint venture was split into 100 shares of equal value which were divided among the four formal partners: Fanuc Ltd. (50%), Machinoexport (20%), ZMM (15%), and Isotimpex (15%). But later ZMM (a huge Bulgarian state-owned industrial corporation, comprising 5 research and technical institutes, 6 integrated manufacturing complexes, and more than 20 plants and factories) bought Isotimpex's share of the joint venture's equity and became the biggest Bulgarian shareholder of Fanuc-Machinex.

That organizational reshuffle was actually prompted by the introduction of the so-called Three-Tier Economic Model in Bulgaria. In practice, that model was essentially based on certain traditional communist-type ideological dogmas, such as the role of the "all-people's" property in the "revolutionary socialist production" and the "historic significance" of the objective trend towards increasing concentration and centralization of production.

Notably, Fanuc-Machinex was paid considerable attention by the high-ranking officials of the Standing Commission of Monitoring Foreign Investments in Bulgaria, the Ministry of Foreign Economic Relations, and the Ministry of Machine-Building Industry. In particular, Minister Chakurov took personally the obligation to monitor all contacts between the Japanese affiliate and the domestic economic associations, subordinated to the Ministry of Machine-Building Industry. Moreover, Fanuc-Machinex was given the privilege to have exclusive access to the Bulgarian market for engineering products. Fanuc's affiliate was also entrusted by the government of that East European country with the exclusive right to take major part in several widely-publicized "prestigious" projects.

Furthermore, Fanuc-Machinex appeared to enjoy the personal sympathy of Mr. Inaba (the President and CEO of Fanuc Ltd.), who used to pay regular visits to Bulgaria. The joint venture seemed also to receive a lot of active support directly from the headquarters of the Japanese parent company. Thus, several Fanuc's managers and technical specialists were sent to assist the operations of the Bulgarian-Japanese firm (TABLE No 4.3). Besides, Fanuc-Machinex was authorized to transfer a few fairly-advanced technologies to the East European country (TABLE No 4.8).

Nevertheless, the local projects in which the Japanese affiliate was involved resulted eventually in embarrassing failures, especially from the technological point of view. The scale and scope of the business operations of the Bulgarian-

Japanese firm apparently stagnated. The joint venture remained also largely detached from the world-wide business activities of the Japanese parent company.

Since the fall of the communist regime in Bulgaria, Fanuc-Machinex has essentially lost its privileged position there. The joint venture is no longer guaranteed exclusive access to the local market. Besides, the Japanese affiliate has presently to compete with a growing number of international and local companies for the right to take part in some business projects.

In addition, senior officials from Fanuc's headquarters have recently visited the Bulgarian-Japanese firm on only rare occasions. The current transfer of personnel from the world-wide divisions and technical centers of Fanuc Ltd. to the local subsidiary has not showed a significant growth in terms of the aggregate number of reappointed employees (TABLE No 4.4). The general level of sophistication of Fanuc technologies, which have recently been transferred through the joint venture to various recipient-firms in Bulgaria, tends also to decrease.

But Fanuc-Machinex has managed to accomplish most of its business objectives. Notably, this company enjoys now a stable 70% share of the Bulgarian market for designing-automation and flexible-manufacturing systems. The success rate of the projects with Fanuc-Machinex' involvement has considerably increased. The functional scope of the business operations of this firm has also become wider (TABLE No 4.5). Moreover, the local affiliate has recently taken part in several international projects of

significant importance for the Japanese parent company (TABLE No 4.7).

4.1. Fanuc-Machinex in 1986.

4.1.1. Organizational structure.

The top-level management positions at Fanuc-Machinex were officially shared out by the Bulgarian parent companies, on one hand, and Fanuc Ltd., on the other hand. In greater detail, Mr.Kostadinov, who was the General Director of ZMM, occupied also the position of the Chairman of the Board of Directors, while Mr.Hara (a senior representative of Fanuc Ltd.) was respectively the Managing Director of the Bulgarian-Japanese firm (TABLE No 4.3).

In reality, most of the managerial decisions at Fanuc's affiliate used to be, however, taken by Mr.Kostadinov. Mr.Hara was consulted on only rare occasions and, reportedly, his consent to the decisions of the Chairman was implicitly assumed. Furthermore, Mr.Kostadinov used to hold regular meetings with Minister Chakurov and Mr.Paparizov at the Ministry of Machine-Building Industry during which he elaborately informed those senior Bulgarian government officials of the state of Fanuc-Machinex' affairs and listened to their corresponding comments. Mr.Hara reportedly knew about those meetings, but he refrained from expressing any open

opinion on the way in which the joint venture was actually managed.

"We could not even survive, let alone operate successfully, in Bulgaria of the 1980s, if we didn't cooperate with the central authorities."- explained Mr.Kostadinov- "Certainly, Mr.Hara understood the specificity of our situation, he accepted all my ideas, but he did not seem to be quite ready to deal with the ruling then communist partocracy."

In addition, Minister Chakurov and Mr.Paparizov, both members of the Standing Commission of Monitoring Foreign Investments in Bulgaria, tried very persistently to obtrude the ideologically-motivated decisions of the Central Committee of BCP on Fanuc-Machinex' management. For instance, it was repeatedly emphasized by those leading members of the Bulgarian communist elite that all locally-based economic units should actively contribute to the improvement of the status of the socialist production relations in that East European country. So, it was strongly recommended for Fanuc-Machinex to endorse explicitly the "Efficacious Discipline Scheme", "Multistage Approach", and several other "progressive" initiatives of the Central Committee of BCP, rather than promote the "detrimental" principles of the capitalist production relations.

As a result, the Japanese-Bulgarian firm formally adopted strict job specifications and rules of work-related communication. All employees of the joint venture were consequently supposed to fulfil only their individually-defined duties and the orders of their immediate superiors. All kinds of job-related communication

at Fanuc-Machinex were required to pass exclusively through the official chain of command and subordination. Direct organizational contacts between different departments of the joint venture were not permitted.

Furthermore, the organizational structure of Fanuc's affiliate used to include only three departments: administrative support, system engineering, and engineering services (TABLE No 4.1). The directors of those departments were also senior managers at ZMM. So, they were formally subordinated to Mr.Kostadinov, firstly, at that Bulgarian industrial corporation and, secondly, at Fanuc-Machinex. Besides, those people did not have any direct working contact with either Minister Chakurov and Mr.Paparizov or Mr.Hara. They were, essentially, excluded from the actual decision-making process at the Bulgarian-Japanese firm too.

In addition, there reportedly were not any serious organizational conflicts at the joint venture. The employees followed closely the officially established rules of behavior concerning their jobs, as well as, the orders of their superiors. Moreover, those people, who were predominantly native Bulgarians, did not show any sign of open discontent with the way (familiar, in fact, to most of them) in which Fanuc-Machinex' administration used to operate.

4.1.2. Transfer of personnel.

All people who worked at Fanuc-Machinex, including the Chairman of the Board of Directors and the Managing Director, had been taken on at the recommendation of either the Bulgarian Ministry of Machine-Building Industry or the headquarters of Fanuc Ltd. The joint venture itself did not have independent personnel policy.

In particular, the Bulgarian employees of the Japanese affiliate used to hold simultaneously two jobs: the first at ZMM and the second one at Fanuc-Machinex (TABLE No 4.3). Moreover, all Bulgarian managers and technical specialists used to regard their respective assignment to go to work for the joint venture as only temporary. As a matter of fact, the Ministry of Machine-Building Industry could terminate the appointment of any local employee of the Bulgarian-Japanese firm at any time without even consulting the opinion of Fanuc's managers on that matter.

For instance, in the beginning of 1986 Minister Chakurov single-handedly took the initiative for the carrying out of a big personnel change at Fanuc-Machinex aimed at speeding-up of the installation of several Japanese-manufactured industrial systems at Dinamo Co. in Sliven (East Bulgaria) and at Beroe Co. in Stara Zagora. In order that the aforementioned project, which had been given high priority by the Bulgarian government, might succeed, all local service engineers of the joint venture were "fired" (actually, reassigned within the system of ZMM's plants and technical centers) and a large group of factory-automation

specialists was, in turn, hastily included in Fanuc Machinex' staff (TABLE No 4.3).

The Japanese employees of the joint venture were also sent on just temporary assignments to Bulgaria. In fact, most of them held jobs at Fanuc-Machinex for only short periods of time (ranging from six weeks to fifteen months). Even Mr.Hara was considered, in the first place, employed by the Overseas Sales Division of Fanuc Ltd. Besides, the Japanese company followed, reportedly, a well-calculated policy of limited personnel transfer to the East European country. Worthy of noting, the aggregate number and professional qualification of the people, sent by Fanuc to work at projects of the Bulgarian-Japanese firm, were apparently related to the characteristics of the respective projects.

In general, Fanuc committed 3 of its functional managers, including Mr.Hara, and 12 of its technical specialists to carry out specific tasks at the joint venture during the period from January 1984 to December 1986. In most cases, the Japanese employees took care of the regular servicing of the delivered Fanuc designing-automation and flexible-manufacturing systems. In addition, the Japanese managers of Fanuc-Machinex played a major role in facilitating the communication process between the Bulgarian authorities and the headquarters of Fanuc Ltd.

4.1.3. Transfer of technology.

During the first years of its existence, Fanuc-Machinex was essentially dependent on the benevolence of the Bulgarian authorities, who controlled completely the access to local customers and suppliers, as well as, the characteristics of competition in Bulgaria. Besides, the joint venture was supposed to "act responsibly" within the limitations prescribed for it by the government of that East European country.

In greater detail, the Japanese affiliate was reportedly expected to deliver some technologically-advanced engineering products, which could give eloquent evidence that the ruling communist elite is seriously resolved to pursue its widely-publicized program for progressive technological up-grading of the "socialist industry" in Bulgaria. That situation was made clear to Mr.Hara by Mr.Kostadinov, who (according to his own recollections) was sure that Fanuc-Machinex should either agree to collaborate with the Bulgarian authorities, or withdraw completely from the local market. Mr.Hara was reportedly very confused by the information given to him by the Chairman of the Board. The Japanese Managing Director sought consequently the advice of Fanuc's headquarters. The issue was eventually brought to a close through the personal interference of Mr.Inaba (the President and CEO of Fanuc Ltd.). In fact, in mid-1980s he paid several visits to Bulgaria during which he discussed with the top-level members of the Bulgarian government the prospects for mutually-advantageous cooperation between the Japanese firm and the East European

country.

As a result, Fanuc Ltd. and the Bulgarian Ministry of Machine-Building Industry signed a business agreement in accordance to which the Japanese company agreed to provide modern machine-tools, including Computerized Numerical Controls (CNCs), to several Bulgarian industrial associations (TABLE No 4.8). Moreover, Fanuc sold license for CNC and robot technology to the Bulgarian government. In return, the Japanese affiliate in that country was granted the privilege to become an exclusive supplier of electric motors and mechanic subassemblies to the Bulgarian plants, which worked on long-term contracts for manufacturing engineering products to be exported to the U.S.S.R. or other CMEA-member countries. Mr. Inaba was also decorated with Madarski Konnik, 1st Degree, by the government of the East European country.

Over the following several years Fanuc-Machinex , notably, delivered and installed on the industrial premises of ZMM a few technologically-advanced products (with an average application-time lag of just 3.8 years) of Fanuc System P-Model D Series and Fanuc Robot S-Model 3 Series (TABLE No 4.8).

The effective transfer of Fanuc technology to Bulgaria was, however, impeded by many obstacles. As Mr. Kostadinov explained, the managers of the Bulgarian manufacturing companies were much more interested in the quantitative parameters of the output and the production schedules than in the quality of the manufactured goods. That cultural bias, which was essentially a result of the almost half-a-century-long running of the economy through

centralized planning, denied in practice any top-level management support to the innovation processes at the respective companies. Furthermore, there usually was a huge discrepancy between the technical characteristics of the imported Fanuc CNC systems, industrial robots, and assemblies, on one hand, and the technical parameters of the generally outmoded and unreliable local manufacturing equipment, on the other hand. So, the effective integration of the imported product-embodied technologies into the Bulgarian industrial system was in practice impossible.

Besides, the Ministry of Machine-Building Industry, the Ministry of Foreign Economic Relations, and the other high-level government agencies did not show any interest in obtaining the management know-how that was related to the purchased technologically-advanced Fanuc engineering products. In addition, there were no established procedures at the Bulgarian manufacturing companies to support the active assimilation of foreign technical know-how, as well as, productive utilization of foreign patents. The organizational climate of most of those firms was also characterized by a lack of industrial discipline and low-level employee commitment. That's why, the acquisition of foreign technical knowledge through the informal communication networks of the respective local companies was inhibited too. Moreover, the lack of financial resources (and especially hard currency) at most Bulgarian client-companies made the acquisition of foreign technology extremely difficult due to purely economic reasons.

4.1.4. Transfer of business operations.

The Bulgarian authorities used to make numerous attempts to establish effective control over the business operations of Fanuc-Machinex. On one hand, the joint venture was considered an important source of technical information. Besides, the ruling communist elite was interested in channelling the business operations of the Japanese affiliate towards performing specific tasks that would contribute to the fulfillment of the centrally-planned economic objectives. On the other hand, the Bulgarian government was reluctant to allow for a "capitalist" company to operate "without check" in the domestic economy. That's why, the local government authorities used, because of political considerations, to interfere very frequently in the activity of the joint venture through various "requests" and "recommendations".

In theory, Fanuc Machinex was free to make its own operational decisions, since it was established in accordance with the provisions of Decree 535 (which had recognized the right of the companies, created with foreign capital participation, to do business in Bulgaria "outside the system of the directive centrally-planned indicators"). In practice, the joint venture could not however function as an independent company due to, at least, two major checks to its free operations. Firstly, the Bulgarian personnel of Fanuc-Machinex consisted actually of employees of ZMM (TABLE No 4.3). Those people had been assigned to go to work for the joint venture by the Bulgarian parent company

(totally-owned by the government), and they could be reassigned by it whenever it was considered necessary. Secondly, the business activity of Fanuc-Machinex in Bulgaria was essentially dependent on the performance of the local suppliers and customers. All of them were, however, owned by the Bulgarian government.

As a result, the business operations of the Japanese affiliate used to be focused, at the recommendation of the Standing Commission of Monitoring Foreign Investments and the Ministry of Machine-Building Industry, on carrying out exclusively "prestigious" projects. For instance, the joint venture was involved in the widely-advertized creation of two technological centers in, respectively, Sliven and Stara Zagora (East Bulgaria) (TABLE No 4.6). The establishment of those technological centers was considered the first major step towards the fulfillment of the centrally-planned objective to achieve "comprehensive automation of production processes in Bulgaria".

As a part of the realization of that project, Fanuc-Machinex supplied and installed several technologically-sophisticated pieces of equipment, like SAPR (a complex system for designing automation), PROCON (a complex of programmable controllers, operator's workplace and communication means), and ASU (a complex of small and medium-size factory automation systems) (TABLE No 4.8).

Mr.Hara gave very reluctantly his permission for Fanuc's participation in that project and a few other similar undertakings. The representative of the Japanese company was greatly puzzled by

the way "business" decisions were made in the East European country. Besides, it was reportedly difficult for Mr.Hara to comprehend why the Bulgarian authorities were so much interested in purchasing just finished Fanuc products, notably, without the related technical and management know-how. In fact, most of the technologically-advanced projects in Bulgaria, including the creation of the aforementioned technological centers in Sliven and Stara Zagora, did not turn out to be successful due to functional incompatibility of the imported engineering products with the rest of the industrial equipment and the accumulated personnel skills at the respective Bulgarian plants.

Consequently, Mr.Hara became unwilling to authorize significant expansion of Fanuc-Machinex' business operations. So, the volume of the total revenues of the joint venture eventually stagnated at approximately \$3 million per year (TABLE No 3.10). The scope of value-adding activities of the Japanese affiliate remained narrow too. Furthermore, Mr.Hara did not exhibit any interest in using the technical skills of the personnel of the local subsidiary at Fanuc's projects outside Bulgaria.

4.2. Fanuc-Machinex in 1991.

4.2.1. Organizational structure.

Fanuc-Machinex is presently governed by a Board of Directors, consisting of two Bulgarians and two Japanese. The top management positions at the joint venture are also divided between the parties (Fanuc LTD., on one hand, and the Bulgarian shareholders, on the other hand) with account to the principle of equal representation. That's why, the Chairman of the Board of Directors is Mr. Kostadinov, while the Managing Director of the joint venture is Mr. Samejima (a representative of the Japanese parent company), who has recently replaced Mr.Hara (TABLE No 4.4).

Besides, Fanuc-Machinex is, by and large, liberated now from the obtrusive interference by the Bulgarian authorities in its decision-making process. The elimination of the ideologically and politically motivated impediments to the proliferation of rational knowledge in that country and the progressive deideologization of the local society have reportedly provided additional opportunities for Fanuc-Machinex to formulate independently its organizational policies.

Thus, the joint venture has recently adopted the so-called "Flexible Approach Towards Increasing Competitiveness". In essence, Mr.Kostadinov and Mr.Samejima have felt that the set of rules, formulated previously on the basis of the "Efficacious Discipline Scheme" and "Multistage Approach" can no longer serve the needs of

the Bulgarian-Japanese firm. That's why, these rules have been abolished, and new ways of job-related behavior have been stimulated at the joint venture. At present, all employees of Fanuc-Machinex are allowed to extend their lunch break by one hour, if they want to have a discussion on work-related issues with some other people from the company (without any restrictions in terms of departmental affiliation). Moreover, every employee of the joint venture can now meet directly with Mr.Kostadinov, Mr.Samejima, or any other manager of Fanuc-Machinex without whatsoever formalities.

For instance, Mr.Todorov, who is a technical instructor at the Engineering Services Group, has recently suggested to Mr.Kostadinov (reportedly they met at lunch time) that Fanuc-Machinex might be able to keep better track of the behavior of local competitors, customers, suppliers, and government agencies, if it joined the Club of the Joint Ventures in Bulgaria. Mr.Kostadinov has generally approved of this idea. But he has expressed the opinion that Mr.Todorov's proposal should be evaluated by a larger group of Fanuc-Machinex' employees, including Mr.Samejima. Eventually, the idea for the joint venture to become a member of the Club has received a strong organizational support. So, the Japanese affiliate has taken part in the work of this local business association lately.

"We consider our participation in the Club as an important source of information regarding the appropriate courses of action to cope with the current problems of our firm."- said Mr. Kostadinov- "Moreover, the exchange of ideas at this pioneering

business association with representatives of the other joint ventures in Bulgaria gives us valuable insights with regard to some strategic threats as well as opportunities for our company in the future."

In particular, Fanuc-Machinex has learned from other members of the Club that Siemens (Germany) has been trying for quite some time to sell various factory automation products, subassemblies, and even complete systems to customers in this East European country. The Japanese affiliate has correspondingly taken emergency measures. A special task force, co-chaired by Mr.Kostadinov and Mr.Samejima, has been created in order to find a suitable way to respond to Siemens' challenge. All things considered, it has been concluded that Fanuc-Machinex should transform its System Engineering Group into Application Engineering Group in order that the firm could become able to offer customer-tailored factory automation solutions, instead of just general-type industrial systems.

At present, Application Engineering Group and Engineering Services Group are the two most important organizational units of the joint venture. In addition, Fanuc Machinex has several employees who handle administrative functions: finance, accounting, and general administrative support (TABLE No 4.2). Mr.Kobayashi, who has already worked for 7 years for Fanuc, is the Director of the Application Engineering Group. The other two Directors of the Japanese affiliate are Bulgarians: Mr.Papazov, a former employee of Isot Co., is currently responsible for the engineering services,

while the administrative functions of the joint venture are headed by Mrs.Ivanova (formerly a Department Manager at Machinoexport).

Furthermore, the organizational integration among application engineering operations, engineering services, and administrative functions is presently enhanced due to the creation of multiple lateral relations within Fanuc-Machinex. On one hand, a sort of Japanese-type organizational culture has been gradually developed at the joint venture. Fanuc-Machinex has now its own life. All employees, together with their families, are close friends. They jointly celebrate holidays, go to picnics, take vacations, etc. In addition, there is very little formal communication at the company and the employees understand each other "even without words", as Mr.Todorov pointed out in our discussion.

"As a result of the frequent and direct personal contact with our Japanese colleagues, we (the Bulgarian employees) are now drawing closer to the business mentality of Fanuc"- specified Mr.Papazov- "That's why, the work climate at our company is more and more characterized by mutual trust and lack of personal antagonisms. Everybody feels responsible to take serious care of his job and, eventually, there are very few work-related disputes here".

On the other hand, Mr.Kostadinov and Mr.Samejima have recently decided to create a new middle-management position at the joint venture in order that the effectiveness of the coordination between the application engineering operations and engineering services may increase. Consequently, Mr.Umehashi (formerly a junior manager at

Fanuc Iberia, Spain) has been appointed Liaison Manager of Business Operations. Moreover, he has been given the right to take on-the-spot decisions concerning the course of business activities in emergency situations. That is, the new Liaison Manager has been allowed a great amount of personal discretion and autonomy at the Bulgarian-Japanese firm.

4.2.2. Transfer of personnel.

At present, almost all personnel-related decisions at Fanuc-Machinex are made jointly by Mr.Kostadinov and Mr.Samejima. Besides, the Chairman of the Board of Directors and the Managing Director of the joint venture tend to consider mostly its specific interests and the characteristics of the rapidly changing immediate business environment during their, reportedly, regular discussions on current personnel issues.

In particular, both Mr.Kostadinov and Mr.Samejima have recently been very concerned with the insufficient amount of market-oriented knowledge and specialized technical skills of the Bulgarian personnel of the joint venture. In order that Fanuc-Machinex may meet successfully the challenges of the growing local competition, it has been respectively decided that the Bulgarian employees of the Japanese affiliate should urgently undergo intense retraining in the principles of company management in a modern market economy, as well as, the ways to maintain properly various Fanuc automation systems.

That's why, most of the Bulgarians, working for Fanuc-Machinex, have been lately invited to attend some of the short-term courses, which are regularly organized at Fanuc Technical Training Center in Chuo (about 70 miles from Tokyo). For instance, Mr. Todorov has specialized at the Project Management General Course, CNC General Course, CNC Maintenance Course, Automatic Programming Course, Robot Course, and Tape Cut Course. In general, all Bulgarian engineers have, at least, attended the Project Management General Course and CNC Maintenance Course at the Chuo Technical Center.

Furthermore, just in 1991 two Japanese managers, namely Mr. Kobayashi and Mr. Umehashi, and 10 Fanuc's technical specialists have been transferred to Fanuc-Machinex in order to assist this firm in coping with the increasing competitive pressure, created mostly because of the persistent efforts of several West European companies, in particular Siemens and Bosh, aimed at conquering the local market for automation systems.

This group of new Japanese employees of the joint venture has, notably, proved to be especially helpful for the effective transferring to Bulgaria of several Fanuc process-embodied technologies. The Japanese managers and technical specialists have, however, met some serious difficulties in their personal adaptation to the ways of living in Bulgaria. Correspondingly, the transfer of people from Fanuc's world-wide divisions and technical centers to the local subsidiary has been kept, according to Mr. Samejima, "deliberately limited".

4.2.3. Transfer of technology.

One of the main responsibilities of Mr. Samejima at Fanuc-Machinex has been to follow the rapid changes in the local consumer preferences. Besides, the Japanese Managing Director has been greatly concerned with the current technological needs of the major Fanuc's clients in Bulgaria. He has frequently visited their industrial facilities in order to examine personally their production lines. In addition, Mr. Samejima has actively sought direct contacts with their managers and technical specialists.

As a result, he has prepared an elaborate report on the present needs and weaknesses of Fanuc's customers in the East European country. This report has essentially stressed that the Bulgarian companies generally lack market-oriented expertise. At the same time, the local managers have been found to show a low degree of inclination towards acquiring advanced product-embodied technologies. Moreover, the report has made clear that the success of international technology transfers through Fanuc-Machinex to Bulgarian clients depends crucially on the composition of the technology package. In particular, it has been emphasized that projects which provide for transferring foreign product-embodied technologies without simultaneously securing active access to the related process-embodied technologies and managerial expertise can hardly lead to positive results in Bulgaria.

Consequently, the Japanese affiliate has adopted, at the recommendation of Mr. Samejima, a program for selective technology

transfer to local firms. Worthy of noting, this program has been aimed at facilitating the transfer of Fanuc process-embodied technologies and managerial expertise to Bulgaria. For instance, Fanuc-Machinex has provided an opportunity for the Bulgarian state-owned and private companies to gain some insights from the Japanese parent firm in order to upgrade their own technological and managerial capacity.

Fanuc-Machinex is essentially an organizer of short-term courses designed to train local specialists how to manage engineering projects and manufacturing operations using computerized industrial systems. Every year about 60 trainees enrol in those courses. The participants are mostly employees of Bulgarian client companies and state-owned engineering organizations. The training is done on genuine Fanuc equipment, including CNC Systems and Plastic Injection Molding Machines, by both practitioners from the joint venture and guest-instructors from Japan.

In addition, Fanuc-Machinex has provided the manufacturing and selling licences of Fanuc NC and Electric Pulse Motor to several Bulgarian companies (TABLE No 4.9). In fact, the demand for these Fanuc process-embodied technologies has notably proved to be great in the East European country irrespective of their almost ten year long application-time lag.

The joint venture has also assisted several contract research and development projects in Bulgaria. Most of them have actually been carried out by local technical institutes, sponsored by

Fanuc's affiliate. For instance, the Bulgarian Machine-tool Institute has recently completed a project for the development of a specialized programmable lathe. Bulgarian scientists and engineers have contributed the design of the whole system as well as most of the mechanical assemblies, while Fanuc-Machinex has helped the local research team with management consultations. Besides, the joint venture has facilitated the supply from Japan of suitable CNC (Computerized Numerical Control) assemblies. As a result, SP 161 -- a programmable lathe with advanced technical characteristics -- has been developed without spending a lot of research money. Currently, that product is marketed in the West by Fanuc Ltd. as CNC Lathe TAPE Chucker. Furthermore, the Bulgarian Machine-tool Institute has developed a horizontal machine center (a specialized lathe with extended technical capacity) as a complementary device to Fanuc industrial robots. Fanuc-Machinex has helped that project with engineering support and management consultations too. Presently, the product is marketed by Machinoexport as Processing Lathe MC 40.

4.2.4. Transfer of business operations.

"The transformation of the Bulgarian political system has led to a radical change of the central government's attitude towards Fanuc-Machinex."- said Mr.Papazov- "In brief, nobody bothers us any longer with "requests" and "recommendations". Thus, we are currently able to formulate our own business policies, which reflect the real economic interests of our shareholders".

"Our main goal at present is to promote Fanuc's sales in Bulgaria, as well as, to contribute to the enhancement of the efficiency of the Bulgarian machine-building industry through providing prompt and quality service to Fanuc customers, educating local engineers about the latest developments in project management techniques, and facilitating the flows of information between Fanuc and its Bulgarian joint-venture partners, as well as, its present or potential customers"- specified Mr.Kostadinov- "By the way, there is no discrepancy between our two major objectives -- to promote Fanuc's sales and to help the Bulgarian machine-building improve its production capabilities -- because our success in one of these two directions will inevitably facilitate our advance in the other direction too".

Notably, Fanuc Ltd. has now a stable 70% share of the Bulgarian market for factory-automation products due, mostly, to the active local operations of its joint venture. As a matter of fact, all products supplied to Bulgaria by Fanuc are shipped directly from Japan which is associated with substantial transportation and insurance expenditures. But, as Mr. Kostadinov has pointed out, "We beat our competition, for example Siemens and Bosh, because those companies don't have service support in Bulgaria, while Fanuc has both local service facilities (with modern equipment and large storage space) and experienced personnel, who can communicate with domestic clients in their language in order to provide operational instruction and service assistance".

In addition, the Japanese affiliate has recently taken part in several projects of significant economic importance for both Fanuc and Bulgaria in Dusseldorf and Frankfurt (Germany), as well as, Sofia, Trojan, and Silistra (Bulgaria) (TABLE No 4.7). "Fanuc-Machinex provides the best service of Fanuc products in Europe"- said Mr.Inaba, the CEO of Fanuc Ltd., at a technical seminar held a few months ago in Oshino-mura (the headquarters).

"As far as our short-term company plans are concerned, we would be however happy just to survive through the turmoil in our immediate business environment."- explained further Mr.Papazov- "Besides, there still are some old-time impediments to our business activity that the new government has not abolished yet". Essentially, Fanuc-Machinex's domestic operations are presently hindered by a lot of difficulties, which are generally associated with the still existing dysfunctional legacy of the communist type economic management.

For instance, Fanuc-Machinex is still required to ask first for the permission of the Bulgarian Ministry of Foreign Economic Relations every time when the joint venture has to import or export some goods. In addition, the Bulgarian engineers, who have to travel abroad to carry out work orders of foreign clients, are still not allowed to leave Bulgaria without the consent of the respective local authorities. "This bureaucratic restriction is very detrimental for our business, which is essentially dependent on our ability to respond rapidly to customers' requests for help"- said Mr.Todorov.

The rigidity of the labor remuneration system in Bulgaria is another major impediment to the productive business operations of Fanuc-Machinex. In fact, the official salary of each of the Bulgarian engineers is \$1600 per month, but they are paid in practice only 800 bulg. leva (or less than 5% of what they are supposed to receive). The rest of their official remuneration is appropriated by the central government.

Furthermore, the collapse of the Bulgarian financial system, which has been accompanied by the actual isolation of that country's economy from the international financial markets, as well as the deteriorated quality of the locally produced goods (because of the chronic underinvestment in fixed capital due to some Marxist-Leninist ideological fallacies) are, according to Mr. Todorov, two very important factors for the slowing down of the pace of the domestic economic activity.

Moreover, Fanuc-Machinex is paid in bulg. leva for its service assistance to local companies. "But we have a very serious problem when it comes to convert our leva revenues into hard currency assets"- explained Mr. Papazov- "We usually buy local products for bulg. leva and, then, export them to the West for hard currency. Well..., it is getting more and more difficult to find local goods of suitable quality".

In addition, the operations of Fanuc-Machinex have been hindered by the inefficient bureaucracy of the Bulgarian custom-houses. "They still function in accordance with the old-time procedures, imposed by the former totalitarian government. Besides,

they don't have modern technical equipment to facilitate their operations"- said Mr.Papazov.

To be sure, it is very annoying for all employees of the joint venture to deal with the still unpleasant socio-economic reality in Bulgaria, but Mr.Samejima, Mr.Kobayashi, Mr.Umehashi, and the Japanese technical specialists have proved, according to Mr.Papazov, to be particularly vulnerable to the obnoxious impact of this "behavioral dissonance", that is, the incompatibility of personal expectations and actual ways of doing business in the East European country. As a result, Fanuc Ltd. has eventually decided to withdraw temporarily from Bulgaria the Japanese personnel of the local subsidiary. "This way, Fanuc has helped us decrease our hard currency expenditures, but our ability to do business as usual has been curtailed too"- added Mr.Kostadinov- "So, in the very nearest future we can either try to diversify functionally in Bulgaria, hoping that the local economy will recuperate soon, or make an attempt to increase the geographic scope of our business operations".

"It is, however, very difficult for us to sustain, let alone expand, the volume of our sales in Bulgaria under such conditions"- specified further Mr.Todorov.

Worthy of noting, Fanuc-Machinex's efforts to cope with its current problems have been supported by the Japanese parent company. One reason for this assistance is that the joint venture has appeared to have a significant number of employees with valuable technical abilities and practical-result oriented

mentality. In addition, Fanuc wants to protect its established business image in Bulgaria which would be seriously damaged if its local joint venture went bankrupt -- Since 1974 the Japanese company has sold scores of patents and products to clients from that country, and the local customers of Fanuc CNC systems, industrial robots, and assemblies are very satisfied with the reliability and other technical characteristics of those products. For instance, a group of Fanuc-Machinex's engineers was surprised to discover a non-registered with the Japanese affiliate Fanuc CNC system at Madara Co. in Shoumen (North Bulgaria). The employees of that company then boasted that the system had worked for more than eight years at their firm without whatsoever specialized maintenance, let alone repair.

Moreover, Fanuc-Machinex is an active source of information for Fanuc Ltd. regarding local developments. One of the responsibilities of Mr. Samejima is, for instance, to send regular reports on the current political situation and economic conditions in Bulgaria. Besides, both the Bulgarian and Japanese employees of the joint venture have regularly been invited to Oshino-mura to meet Mr. Inaba.

That is why, taking into account the current difficulties for Fanuc-Machinex's operations in Bulgaria, Fanuc has not only allowed, but actually encouraged, the joint venture to diversify functionally (TABLE No 4.5), as well as, to broaden the geographical scope (TABLE No 4.7) of its business relations. As a result, Fanuc-Machinex has recently participated in several R&D

projects in the East European country. Furthermore, the Bulgarian-Japanese firm is now doing business with private companies and state-owned organizations from the former Soviet Union, East European countries, Greece, Turkey, Switzerland, Italy, etc. Usually, it is Fanuc Ltd. that makes the first contact with the potential clients. The joint venture is then given the responsibility to secure partly the engineering support for carrying out the concluded agreements, as well as, most of the services for adequate maintenance of the already installed Fanuc equipment.

TABLE No 4.1

ORGANIZATIONAL STRUCTURES OF FANUC, HONEYWELL AND DOW
CHEMICAL SUBSIDIARIES IN BULGARIA (1986)

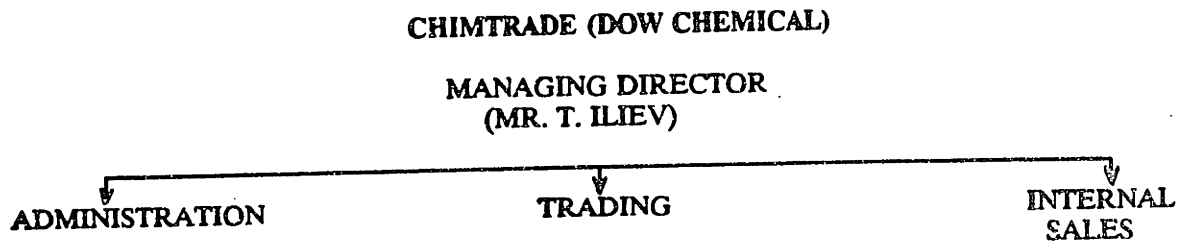
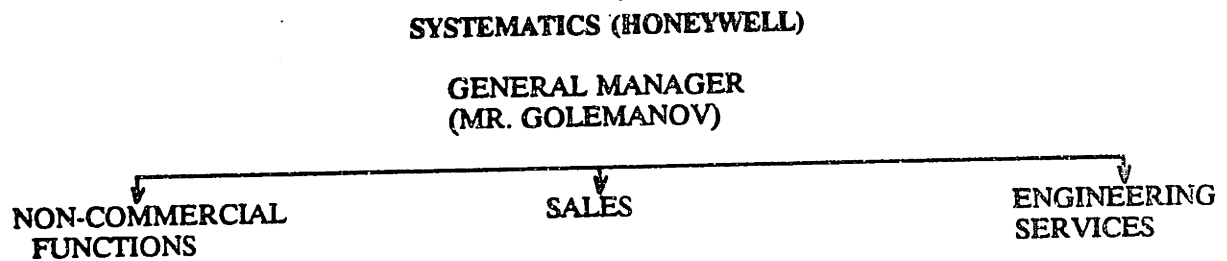
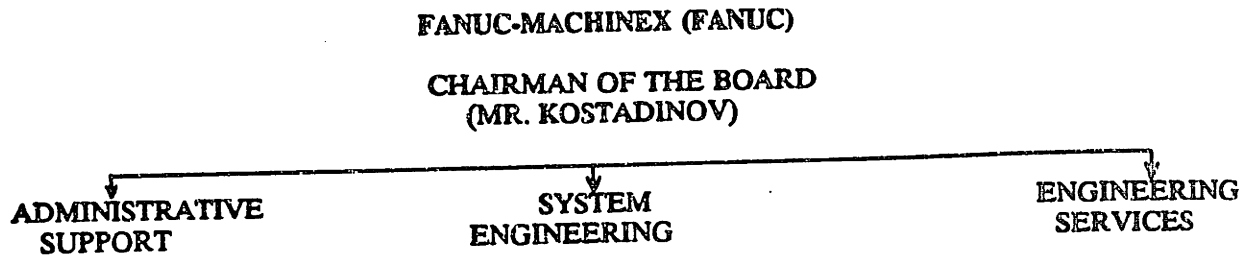


TABLE No 4.2

ORGANIZATIONAL STRUCTURE OF FANUC SUBSIDIARY IN BULGARIA (1991)

FANUC-MACHINEX (FANUC)

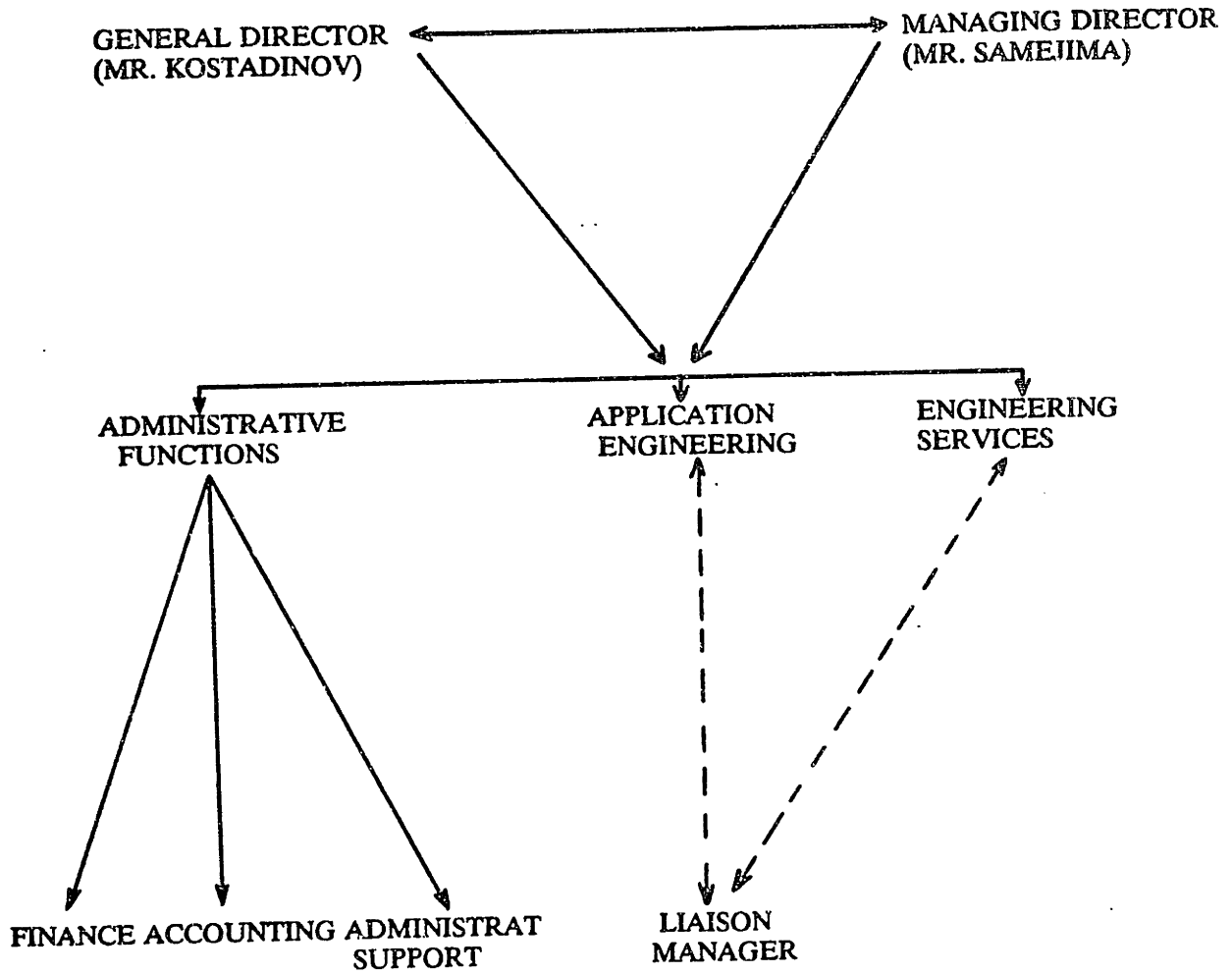


TABLE No 4.3

FANUC-MACHINEX
PERSONNEL COMPOSITION (1986)

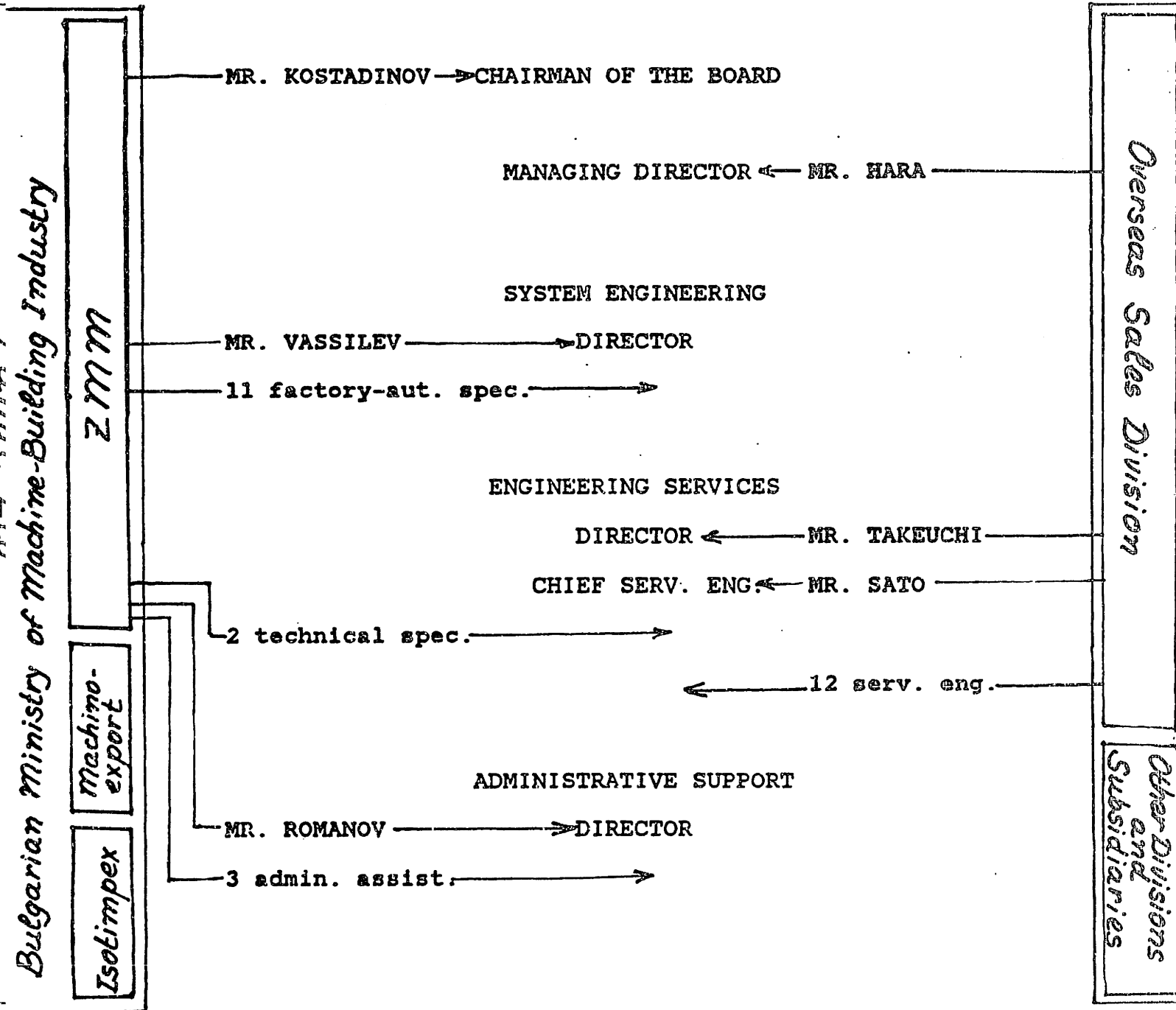


TABLE No 4.4

FANUC-MACHINEX
PERSONNEL COMPOSITION (1991)

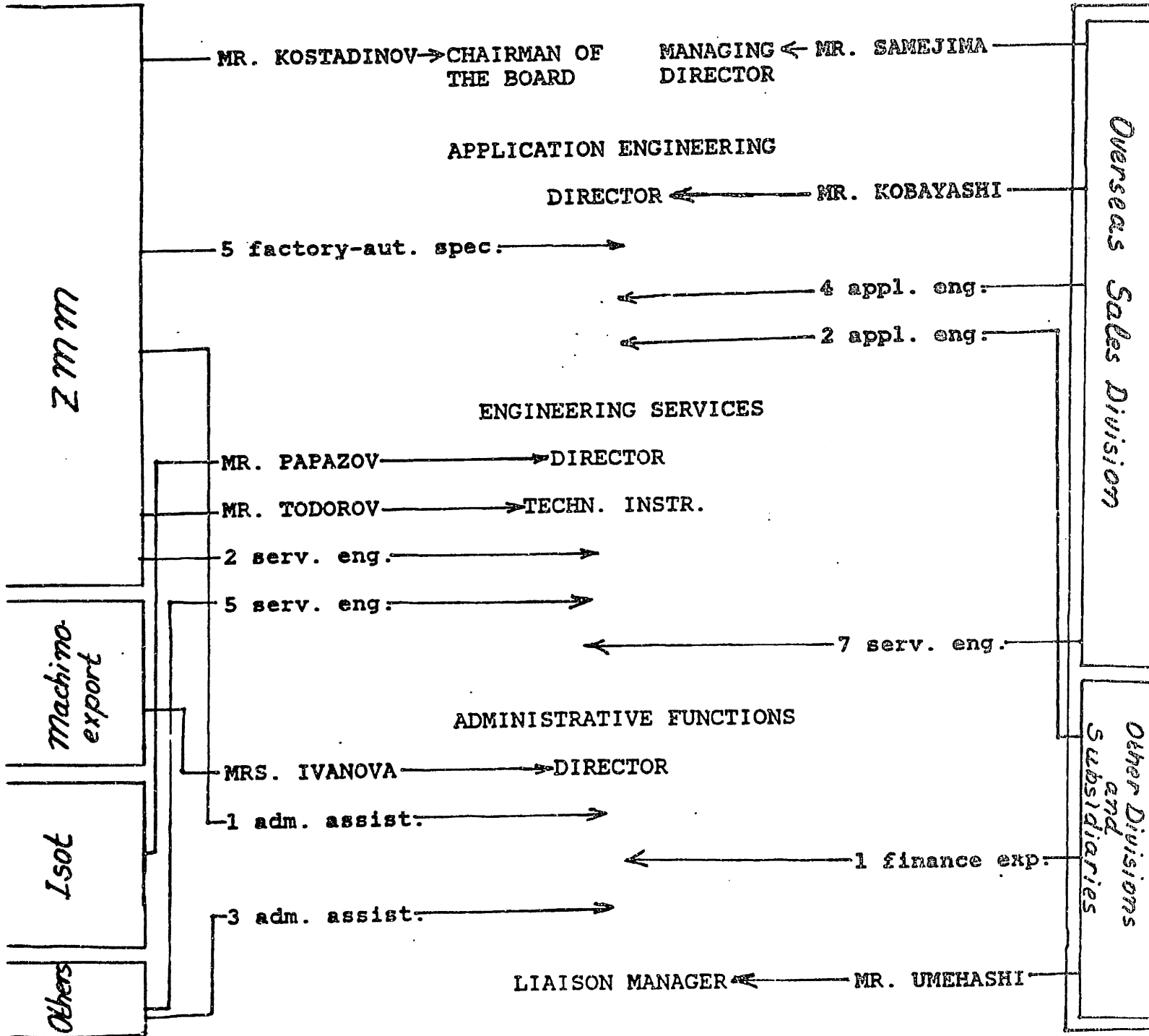


TABLE No 4.5

FANUC-MACHINEX

VALUE-ADDING SCOPE

VALUE-ADDING STAGE	R&D	ENGIN	PROC	MANUF	ASSEM	MARK	DIST	RET
YEAR								
1986					×	×		
1991	×	×	×		×	×		

R&D -- Research and development

ENGIN -- Engineering

PROC -- Procurement

MANUF -- Manufacturing

ASSEM -- Assembling

MARK -- Marketing

DIST -- Distribution

RET -- Retailing

TABLE No 4.6

FANUC-MACHINEX

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1986

COUNTRY OF OPERATION BULGARIA

SITES

SITE 1 SOFIA

SITE 2 STARA ZAGORA

SITE 3 SLIVEN

TABLE No 4.7

FANUC-MACHINEX

GEOGRAPHIC RANGE OF BUSINESS ACTIVITY
1991

COUNTRY OF OPERATION	BULG	EUROPE	USSR
SITES			
SITE 1	SOPIA	DUSSELDORF (GERMANY)	IZHEVSK
SITE 2	TROJAN	FRANKFURT (GERMANY)	KIROVGRAD
SITE 3	SILISTRA	JIHLAVA (CZECHOS)	
SITE 4	PLOVDIV	LARISA (GREECE)	
SITE 5	SLIVEN		
SITE 6	STARA ZAGORA		

TABLE No 4.8

FANUC MACHINEX

TECHNOLOGY TRANSFER
1986

TYPE OF TRANSFERRED TECHNOLOGY	PRODUCT-EMBOD	PROCESS-EMBOD
MAGNITUDE OF APPLICATION-TIME LAG (IN YEARS)		
1 - 4	FANUC SYSTEM P- MODEL D CNC FANUC ROBOT S- MODEL 3 SERIES	
	FANUC DC SPINDLE MOTORS	LICENCE FOR CNC AND ROBOT TECHN
5 - 10	FANUC ROBOT- MODEL 2 ASU	
10 +		

TABLE No 4.9

FANUC-MACHINEX

TECHNOLOGY TRANSFER
1991

TYPE OF TRANSFERRED TECHNOLOGY	PRODUCT-EMBOD	PROCESS-EMBOD
MAGNITUDE OF APPLICATION-TIME LAG (IN YEARS)		
1 - 4		
5 - 10	PLASTIC INJECTION MOLDING MACHINES- MODEL 75 B	
10 +	CNC SYSTEM 5	LICENCE FOR FANUC FULLY- MODULARIZED NC LICENCE FOR FANUC ELEC PULSE MOTOR KNOW-HOW FOR SP 161 LATHE KNOW-HOW FOR PROCESSING LATHE MC40

TABLE No 4.10

FANUC-MACHINEX
ANNUAL REVENUES (IN THOUSAND \$)

PRODUCT- BUSINESS AREA	FACTORY AUT PRODUCTS (FEES)	SUBASSEMBLIES AND COMPON (FEES)	SERVICES	OTHER
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**YEAR OF
OPERATION**

1986	345	110	2 440	15
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1991	95	165	2 735	185
-------------	-----------	------------	--------------	------------

TOTAL 1986 -- 2 910

TOTAL 1991 -- 3 180

CHAPTER FIVE: INTERPRETIVE ANALYSIS

The longitudinal case study analysis of Systematics, Chimtrade, and Fanuc-Machinex has indicated that foreign business involvement in Bulgaria has, thus far, been characterized by certain complex peculiarities. For instance, the level of sophistication of the technologies transferred by international parent companies (Honeywell, Dow Chemical, and Fanuc) and scale of the business operations of locally-based subsidiaries have recently decreased, while the value-added scope and geographic range of the business operations of the same foreign affiliates have been growing.

In addition, it has appear that the specific features and rapid changes of the main composite elements of international business activity in that East European country have been influenced by certain institutional, strategic behavior, and transaction cost factors. Moreover, the primary and secondary data presented in the case studies has provided some valuable insights regarding the general orientation of the complex changes in the business activity of the Bulgarian-based subsidiaries of international companies.

In order to examine more elaborately and deeply the recorded data on the peculiarities and dynamism of the equity-based foreign

business involvement in Bulgaria, Chapter V focuses on the definition and theoretical substantiation of the specific content of the patterns of international business activity in this East European country. In addition, the interpretive analysis of the case studies provides an opportunity for the internal validity of the institutional theory, which was presented in the Introduction, to be evaluated against the adequacy and thoroughness of two alternative explanations.

In greater detail, three sets of hypotheses are developed from, respectively, institutional, strategic behavior, and transaction cost perspectives (TABLE No 5.1 and TABLE No 5.2). On the one hand, I presume that the institutional explanation of the patterns of foreign business involvement in Bulgaria is more adequate than the respective strategic behavior and transaction cost propositions. On the other hand, I assume that, in order to analyze and understand completely the changes (taking place at the interorganizational, firm, and functional levels of aggregation) in the ways of doing business in this East European country, it is necessary to consider the role of all relevant institutional, strategic behavior, and transaction cost factors.

The first set of hypotheses is derived from the theory, which is believed to provide the most adequate and thorough explanation of the particularities and dynamism of international business activity in Bulgaria. This theory asserts that the institutional environment and cultural norms make a crucial impact on the patterns of foreign business involvement in the selected East

European country. Hence, the institutional factors, like power-networks, property rights, and cultural concord (or the level of consistency between the cultural norms of institutional actors and the behavioral requirements of the dominant formalized economic institutions) are hypothesized to be the critical determinants of the specific content of the patterns of international business activity in Bulgaria.

The second set of hypotheses follows the logic of the strategic behavior explanation, that is, the competitive environment and strategic capabilities of the international firm influence decisively the characteristics of its business involvement in a given country. Therefore, the composition and dynamism of the competitive environment, as well as, the possession of strategic assets are hypothesized to make a strong impact on the dependent variable, that is, the specific content of the patterns of international business activity in Bulgaria.

The third set of hypotheses is developed on the bases of the general transaction cost assumption that market structure and transactional characteristics have a crucial influence on the patterns of foreign business involvement in a given country. Consequently, behavioral uncertainty and asset specificity are hypothesized to be critical determinants of the aforementioned dependent variable.

Further, the internal validity of the institutional explanation is assessed in two major ways. Firstly, the presumptions, which have been formulated from the institutional

perspective, are evaluated using the information of the case studies of Systematics, Chimtrade, and Fanuc-Machinex. Secondly, the adequacy and thoroughness of the institutional theory and hypotheses are examined against the respective characteristics of the strategic behavior and transaction cost explanations.

5.1. Stylized patterns of international business activity.

The descriptive analysis of the business activity of Systematics, Chimtrade, and Fanuc-Machinex provides an expedient and useful point of departure for defining the specific content of the patterns of equity-based foreign business involvement in Bulgaria. Moreover, the elaborate description of the changes in the organizational structure, personnel transfer, technology transfer, and transfer of business operations at the examined three Bulgarian-based subsidiaries gives actually an opportunity for the specific characteristics of the patterns of international business activity in the East European country to be defined with a clear focus on the recently rapid development of the main composite elements of this complex activity.

5.1.1. Organizational structure pattern.

All examined foreign subsidiaries in Bulgaria used to have very formal, markedly simple, highly centralized, and fairly integrated organizational structures. Expectations concerning job activities were explicitly specified and relations among different organizational units were regulated by either strict orders or

highly-standardized policies and procedures. For instance, the Efficacious Discipline Scheme and Multistage Approach, promoted at Chimtrade by the former Deputy Managing Director, provided for the implicit observance of a set of narrowly defined job specifications and rules of communication at that firm. In greater detail, Chimtrade's employees were not allowed to substitute for each other without formal permission, discuss work-related issues with their peers, or make reports to somebody else other than their immediate superiors. Moreover, they were expected to follow closely the orders of officials in higher management positions and communicate exclusively with people of their organizational unit.

In addition, very few employees of Systematics, Chimtrade, and Fanuc-Machinex were familiar with the specific features of the immediate business environment and only the top managers possessed relevant knowledge on the particularities of the economic behavior of those firms. Consequently, the degree of differentiation along both horizontal and vertical lines was minimal. Thus, there were only two management levels at all aforementioned foreign subsidiaries: the level of the General Manager, Managing Director, or Chairman of the Board, who was invariably a Bulgarian, and the lower level of management. Besides, the organizational structures of Systematics, Chimtrade, and Fanuc-Machinex consisted each of only three functional units. Real decisions at those companies were made at one or, at most, two points, notably located at the very top of the respective managerial hierarchies. The chain of command was clearly delineated and formally unchallenged. Intra-

organizational integration was, therefore, assured through enforcement of strict subordination to the orders of superiors and the provisions of programs developed as a part of centralized planning.

At present, the same Bulgarian subsidiaries have been found to have relatively less formal and centralized, but more complex and internally integrated organizational structures. In particular, middle- and lower-level managers, as well as, ordinary employees are currently allowed greater discretion regarding their job assignments at the respective foreign affiliates. It has also been reported that communications between people of different rank at Systematics, Chimtrade, and Fanuc-Machinex are no longer highly-formalized. For instance, the practice of "open hours" at Systematics and the "Flexible Approach Towards Increasing Competitiveness" at Fanuc-Machinex have actually provided for direct exchange of ideas among all employees of these firms without any restrictions in terms of official rank or departmental affiliation. Moreover, even top-level managers have been required to devote part of their time to discussions with other employees of the respective joint ventures.

The officials in higher positions also cease to be the only people at Systematics, Chimtrade, and Fanuc-Machinex who possess relevant knowledge regarding the overall economic behavior of their firms. Hence, the degree of differentiation, especially along horizontal lines, has markedly increased. All subsidiaries included in the research sample have been found to consist of four, or even

more, different organizational units, excluding the Boards of Directors. For instance, the organizational structure of Systematics is currently composed of ten different commercial and non-commercial units. Nine of them are included in a matrix sub-structure that has been built on the basis of three product areas (Industrial Automation, Home and Building Automation, and Information Systems) and three functional areas (Sales, Systems Engineering and Servicing, and Software Engineering and Development).

In addition, decision-making processes have become considerably decentralized, and real decisions are presently taken at almost all levels of the organizational hierarchies of Systematics, Chimtrade, and Fanuc-Machinex. Moreover, power and authority at these companies are now effectively shared between Bulgarian and non-Bulgarian managers. The creation of the position of the Distribution and Sales Manager at Chimtrade (designed to provide an opportunity for a senior representative of Dow to take immediate part in the decision-making process of the Bulgarian-based affiliate) is an indicative example in this respect.

Intra-organizational integration is currently secured through a combination of integrating mechanisms. Besides the still existing formal regulations (which have mostly become impersonal), the organizational cohesion of the studied foreign subsidiaries is assured through the creation of lateral relationships that cut across lines of authority. Liaison functions at lower and middle levels of management have also been established at Chimtrade

(between Trading and Internal/Field Sales) and Fanuc-Machinex (between Application Engineering and Engineering Services).

Pattern one: Organizational structures of foreign subsidiaries in Bulgaria become increasingly informal, complex, decentralized, and internally integrated.

5.1.2. Transfer of personnel pattern.

There used to be very few occasions of personnel movement between foreign parent companies and their Bulgarian subsidiaries. In most cases, foreign officials or technical specialists were sent to Bulgaria on just temporary assignments (6 foreign managers and 16 technical specialists -- most of them from Fanuc -- spent between six weeks and fifteen months on job-related assignments in Bulgaria during the period from January 1984 to December 1986). No Bulgarians were moved from local subsidiaries to other affiliates, let alone central headquarters, of the foreign parent companies.

Movement of personnel between world-wide centers and regional affiliates of the foreign parent companies on one hand, and their Bulgarian subsidiaries on the other hand, is something usual now. In 1991 alone, more than 10 senior executives and 30 technical specialists were transferred from local subsidiaries to other parts of the respective international companies. Most of those people were actually moved away from their jobs in Bulgaria for only short periods of time (ranging from two weeks to one year). Some of the Bulgarian transferees (7 people in total) were however reappointed to new full-time jobs within global management systems of the

respective parent companies. The number of foreigners, who have recently been assigned to work either permanently or temporarily in Bulgaria (6 senior managers and 20 technical specialists) has nevertheless remained surprisingly small.

Pattern two: There is a growing movement of Bulgarian managers and technical specialists within the management system of the international parent companies, while the transfer of non-Bulgarian personnel to the respective affiliates in Bulgaria remains insignificant.

5.1.3. Transfer of technology pattern.

Despite strict and numerous past restrictions to export of technologies, which might have military application, to communist countries, foreign parent companies used to transfer to Bulgaria mostly technologies that could be considered fairly advanced. For instance, the list of technologies, which were transferred to that country in 1986, included TDC 3000 Automation Systems and HW Delta 5200 (Honeywell); Voranol, and Epichlorohydrin (Dow Chemical), as well as, CNC System P-Model D and Industrial Robot S-Model 3 (Fanuc), etc. Note-worthy, those technologies were largely product-embodied.

Technologies which have lately been transferred to Bulgaria are, however, mostly process- and people-embodied. Besides, the senior officials and technical specialists of Systematics, Chimtrade, and Fanuc-Machinex have reported that in a great majority of the cases of international technology transfer to their

firms in 1991 the involved technologies were of conventional or even lower level of sophistication.

Pattern three: The transfer of fairly advanced product-embodied technologies to the Bulgarian-based subsidiaries of international companies is increasingly displaced by the transfer of conventional process- and people-embodied technologies to Bulgaria by the respective international firms.

5.1.4. Transfer of business operations pattern.

Foreign subsidiaries in Bulgaria used to be relatively small. Their individual annual revenues never amounted to more than \$3 million. Besides, the value-added scope of their business operations was very narrow. Worthy of noting, it comprised at most two separate functions in all of the examined cases. For instance, the value-added chain of the business operations of Systematics was exclusively focused on marketing.

Generally, foreign subsidiaries in Bulgaria did not play any active role in the overall international business operations of the non-Bulgarian parent companies. In accordance with the information which has been provided, Systematics, Chimtrade, and Fanuc-Machinex took part in only five projects outside Bulgaria during the period from January 1984 to December 1986. Furthermore, those joint ventures were involved in projects of, by and large, little economic significance in Bulgaria.

Today foreign affiliates in Bulgaria are still of relatively small size. The average dollar amount of annual revenues of

Systematics, Chimtrade, and Fanuc-Machinex has even declined lately. On the other hand, the value-added scope of their business operations has become wider. Notably, it has encompassed four, and even more, separate value-added stages. For instance, the value-added chain of Systematics consists presently of engineering, procurement, assembling, and marketing.

Besides, Systematics, Chimtrade, and Fanuc-Machinex have recently been involved in more than twenty projects in several industrially-developed or developing countries: the U.K., Germany, France, Italy, Greece, Portugal, India, Venezuela, Nigeria, etc. Moreover, those firms are currently participants in projects of generally great economic importance for the Bulgarian economy.

Pattern four: Although annual revenues of foreign subsidiaries in Bulgaria remain small, the value-added scope, geographic range, and relative importance of the business operations of these firms have grown.

5.2. Institutional perspective: The role of institutional environment and cultural norms.

The institutional school, focusing on interorganizational relations, emphasizes the role of institutionalized interests in the evolution of the total socio-cultural system and its constituent parts, including business enterprises. In addition, institutionalized interests are assumed to interact with one another in the context of the particular culture and property

rights, thus forming specific power-networks. So, culture, property rights, and power-networks are essentially presumed to be the critical determinants of the characteristics of business activity.

5.2.1. Relating the institutional determinants to the pattern of organizational structure.

The documented changes in organizational structures of foreign subsidiaries in Bulgaria can largely be interpreted as a manifestation of isomorphism in the Bulgarian socio-cultural system, since there is a close resemblance between the general features of the transformation of the local society and the overall characteristics of the organizational evolution of foreign affiliates in that country.

To be sure, all local subsidiaries of international companies could be considered constituent parts of the Bulgarian society. Besides, the Bulgarian socio-cultural system used to be characterized by the ineffective dissemination of rational knowledge, existence of undemocratic social and political institutions, low degree of consistency between established cultural norms and prevailing economic institutions, as well as compelling ideological and political influences on economic mechanisms (see Appendix No 1). In such circumstances, the ruling communist nomenclatura met little real opposition in building a comprehensive power-network to dominate over the whole Bulgarian society. That power-network was governed through mandatory observance of a set of strict and formal rules by all its members.

It had also highly-centralized hierarchical structure with clearly delineated lines of authority and subordination. In addition, the dominant power-network took advantage of the prerogatives associated with having an absolute power, but without bearing any administrative responsibility, to impose indiscriminately its social ideals on all other constituencies of the Bulgarian society.

Moreover, the communist type power-network was not exposed to the risk of losing private property due to incompetent economic decisions, since the then institutionalized property rights were actually indirect, that is, the ruling communist elite had the power to appropriate all economic gains (if any) of the country, while the economic losses had to be borne by the rest of the society.

Consequently, foreign subsidiaries that wanted to achieve a satisfactory level of local economic performance were essentially forced to match structure of their business activities in Bulgaria with the model provided by the dominant power-network. In that way, the respective foreign affiliates could effectively establish exchange-of-favors relations with the ruling communist elite, which used to control the access to national distribution channels and sources of supply, as well as, the direction and content of technology flows in Bulgaria. Besides, the institutionalization of very formal, notably simple, highly centralized, and fairly integrated organizational structures at the local subsidiaries of international companies was prompted by the active efforts of the Bulgarian managers, working at the respective foreign affiliates,

to demonstrate openly their loyalty and conformity to the political decisions of the dominant power-network, in order to secure the continuation of their appointments.

The collapse of the totalitarian regime in Bulgaria and the subsequent disintegration of the communist type power-network have eventually resulted in radical transformation of the Bulgarian society. Economic power and political power have largely become dissociated from each other, as indirect property rights were increasingly displaced by private ownership of capital, land, and even technology (Appendix No2). Under these conditions, the members of the former communist nomenclatura have actively traded political capital (which they would any way lose) for economic capital. Thus, the new power-networks have generally consolidated on the basis of the membership in the old communist type power-network, but, in order to survive, the new elite groups have actually been compelled to modify on market principles their relations with the other economic constituencies of the Bulgarian society, including with the foreign subsidiaries.

Hence, the heterogeneity of the local social system has increased as competitors, customers, and suppliers, along with technology, have relatively grown in importance, although in various degrees. Eventually, the Bulgarian society has become more informal, decentralized, and complex, and ideology is increasingly displaced by rational analysis as a major source of ideas regarding appropriate adjustments of current social mechanisms.

Besides, more people (notably, at lower and middle levels of

management) in local subsidiaries of international companies) have been given the opportunity to accumulate relevant knowledge on the specificity of economic behavior of their firms, as the successful economic performance of companies in Bulgaria has ceased to depend exclusively on the top-level exchange-of-favors relations between company managers and the other members of the dominant elite. Moreover, the diversity of external pressures on the performance of foreign subsidiaries has markedly increased as the immediate institutional environment has become more and more heterogeneous. Consequently, the local affiliates of foreign firms have been obliged to adopt relatively more informal, decentralized, complex, and integrated organizational structures in order to enhance their chance of survival in the much more turbulent business environment in Bulgaria at present.

It should, however, be pointed out that new elite power-networks still remain most important component of the immediate institutional setting of every Bulgarian subsidiary since they have generally managed to retain control over local distribution channels and sources of supply. That is why, the effect of actions of competitors, customers, suppliers, as well as changes in technology, on the economic performance of foreign affiliates in Bulgaria is, by and large, suppressed by the respective impact of the present power-networks. As a result, differences in terms of the composition of industry structure (e.g. between electronics and chemical industry) have been found to play relatively insignificant role as far as the organizational evolution of the Bulgarian

affiliates is concerned.

In brief, the changes in organizational structures of foreign subsidiaries in Bulgaria are in a great measure comprehensible, if these developments are interpreted with due account to the role of the transforming power-networks and property rights in bringing about social isomorphism.

5.2.2. Relating the institutional determinants to the pattern of personnel transfer.

It was not necessary, from the institutional point of view, to move many people between world-wide centers or regional affiliates of international companies and their respective Bulgarian subsidiaries in order to secure successful economic performance of the latter in the past. Actually, the maintenance of close exchange-of-favors relations with the dominant power-network, what proved essentially to be the critical success factor, could best be carried out by a limited number of foreign officials, who had managed to accumulate a certain amount of experience in dealing with local institutional mechanisms.

On the other hand, the establishment of new power-networks, as well as the concomitant transformation of the social exchange relations on, by and large, market principles have logically resulted in large-scale movement of Bulgarian personnel from local subsidiaries to some other affiliates of the respective international companies lately. Worthy of noting, the achievement of satisfactory economic performance in the new institutional

environment, characterized by progressive institutionalization of direct property rights, requires that local employees accumulate relevant market-oriented expertise, but this kind of knowledge has generally been unavailable in Bulgaria (Appendix No2). So, a substantial part of the Bulgarian transferees have actually been trained on the premises of foreign parent companies for some period of time and, subsequently, returned to their former jobs in the East European country.

In addition, a certain amount of cultural concord, and even mutual trust, has eventually been built, as it can be predicted by the institutional school, between non-Bulgarian managers and some of the transferees who have also proved to possess valuable technical skills. Consequently, a few Bulgarians have been incorporated in global management structures of the respective parent companies in order to enhance the capacity of these firms to achieve their overall performance objectives.

Furthermore, using the institutional way of reasoning, it can easily be comprehended why the transfer of foreign personnel to Bulgarian affiliates remains limited even at present. In essence, the substantial difference between the cultural norms of foreign employees on one hand, and the tortuous, highly-bureaucratic, and still heavily-politicized ways of doing business in Bulgaria on the other hand, that is, the existence of acute cultural anxiety clearly makes foreign parent companies reluctant to send more of their non-Bulgarian employees to that country. (Besides, large-scale presence of foreign managers has never been of critical

importance, from the viewpoint of the institutional school, for securing successful economic performance of local subsidiaries in Bulgaria).

5.2.3. Relating the institutional determinants to the pattern of technology transfer.

According to the institutional school, transfer of technology always presupposes the existence of, at least, two institutional actors who are trying to mobilize resources in order to improve their overall performance (McCarthy and Zald, 1977; Herman, 1981; Granovetter, 1985; DiMaggio, 1988). In this sense, the transfer of fairly advanced product-embodied technologies by international companies to their Bulgarian subsidiaries in the past could be interpreted as an exchange-of-favors process through which the respective foreign affiliates managed to secure preferential treatment by the dominant power-network in Bulgaria. In greater detail that meant obtaining the right of exclusive access to the local distribution channels and sources of supply, as well as, enjoying the benefit of government protection against competition in the local market by other international competitors. In turn, the communist nomenclatura managed to put up for public display in Bulgaria some pieces of fine technology (which have already been embodied in finished products) in order to provide some tangible evidence in support of the claim that the local society was moving fast along the way towards the hypothetically affluent and technologically-advanced communism.

Furthermore, the disintegration of the communist type power-network and, subsequently, the institutionalization of new elite groups as well as new order of economic relations, grounded on direct property rights, have eventually eliminated the role of the transfer of fairly advanced product-embodied technologies as an useful instrument to secure preferential treatment in Bulgaria, that is, to mobilize effectively all necessary resources that could guarantee successful economic performance of the respective locally-domiciled foreign subsidiaries.

Under the new conditions, the Bulgarian power-networks have become much more interested in obtaining direct access to market-oriented expertise, a kind of resource which has generally been in short supply in that country, than in getting hold of individual technologically-advanced products that could most likely prove functionally incompatible with the industrial equipment currently available at the Bulgarian plants.

On the other hand, the transfer of conventional process-embodied technologies at present by international companies to their local subsidiaries can be interpreted as a first step, in the absence of built trust in the overall capabilities of the Bulgarian affiliates, to mobilize the resources of the latter in order to improve the integral economic performance of the respective non-Bulgarian parent companies. Thus, the shift in the type of technologies, which have been transferred by international firms to their Bulgarian subsidiaries, can be given logical institutional explanation.

5.2.4. Relating the institutional determinants to the pattern of transferring business operations.

The small size and narrow scope of the business operations of foreign subsidiaries in Bulgaria in the past could be seen from the viewpoint of the institutional school as a logical result, stemming from the existence of acute cultural anxiety that was experienced by the non-Bulgarian representatives of the involved international companies in their relationship with the dominant power-network in that country. Actually, foreign businessmen had to deal in Bulgaria with a puzzling, for them, kind of homo institutionalist, that is, homo socialisticus (Appendix No1).

Homo socialisticus was essentially a product of the communist socio-cultural system. He was not interested in cultivating his own intellectuality and he always showed off his "collective style" of making decisions. In fact, he closely adhered to authoritarian methods of management and he simulated a grotesque of group decision-making just to conceal his professional incompetence. Besides, homo socialisticus was active in putting on airs of assiduousness, while in reality he did not produce much of a positive result. He was reluctant to take risks and invariably tried to adhere to some ready-made schemes. Homo socialisticus eventually reduced problem-solving to repeating citations of Marx, Engels, Lenin, and Zhivkov (the former General Secretary of the Bulgarian Communist Party).

Consequently, the foreign representatives became reluctant not

only to increase the size and scope of the business operations of their companies in Bulgaria, but also to take advantage of the valuable engineering expertise, which had been accumulated at most of the local subsidiaries, in order to improve the level of economic performance at some other affiliates of the respective international parent firms. On the other hand, the dominant power network in Bulgaria that was essentially actuated by homo socialisticus was mostly interested in directing the business activity of locally-domiciled foreign subsidiaries towards carrying out show-case projects, although those projects were generally of little economic significance for the country.

To be sure, the radical changes which have recently been taking place in Bulgaria have largely eliminated the communist-style system of economic management, that is, the institutional setting in which homo socialisticus was the most dominant actor. This kind of pseudo-personality, although fictitiously changed, is however still alive in that country. At present, he has put on a new convenient social mask -- that of the entrepreneurial businessman -- and he has kept on pretending to be an assiduous individual. In reality, homo socialisticus is deeply troubled. For him the emergence of the new institutional arrangements, although eventually in his interest (making it possible for him to take advantage of his newly-established direct property rights), has posed the difficult issue of radically changing his life-style and learning completely new things. Quite naturally, this is a tremendous challenge to the abilities of somebody who has lost his

individuality and aptitude to think constructively without looking for reference to certain prescribed stereotypes.

As a result, the "changed" homo socialisticus has lost most of his former effectiveness. In addition, he ceased to be the only important institutional type in Bulgaria, as a new kind of homo institutionalist: the well-educated technocrat who is exclusively interested in the progress at his department or firm, has emerged in that country lately. Under such conditions, it is logical to expect, from the institutional perspective (Ayres, 1944; Lindblom, 1977; Herman, 1981; DiMaggio, 1988), for the international companies that have local subsidiaries to try more and more actively to mobilize the resources of the latter in order to improve the integral economic performance. So, the scope of the business operations of Bulgarian affiliates has increased both geographically and functionally. The volume of local business contacts has however remained limited because of the persisting acute cultural anxiety which foreign businessmen have experienced in their relations with the new Bulgarian power-networks too. For instance, Mr. Mildner (the Distribution and Sales Manager of Chimtrade) and the managers of Dow Chemical Austria have been deeply troubled and seriously puzzled by the "unconventional" business approach of Mr. Kotsev (the recently appointed General Manager of Verila Co.) and some of his former colleagues at the Bulgarian Ministry of Chemical Industry. Hence, Dow's representatives have apparently become reluctant to authorize any increase of the overall volume of Chimtrade's local operations.

Furthermore, the radical transformation of the Bulgarian socio-cultural system and, in particular, the disintegration of the communist type power-network have eventually made it pointless for foreign subsidiaries to participate in projects of little economic significance in Bulgaria. That is why, the documented increase of the level of overall economic importance of the projects, carried out locally by affiliates of international firms, doesn't look surprising at all, if it is examined from the institutional viewpoint.

5.3. Strategic behavior perspective: The role of competitive environment and strategic capabilities.

The strategic behavior analysis, essentially focused on the firm, accentuates the role of strategy as the mediating factor between competitive environment and strategic capabilities of the firm on one hand, and various aspects of the business activity of the firm on the other hand. In the first place, the components of the competitive environment, like suppliers, customers, present rivals, new entrants, and substitutes, etc., and company's strategic capabilities, like proprietary technology, modern manufacturing capabilities, comprehensive sales and distribution networks, etc., are assumed to make a crucial impact on strategy formulation. In the second place, it is presumed that there is a strong relationship between strategy implementation and various characteristics of the business activity of the firm.

5.3.1. Relating the strategic behavior determinants to the pattern of organizational structure.

The general evolution of organizational structures of the foreign subsidiaries in Bulgaria can in a great measure be considered a logical strategic reaction to the changes in local competition, as the respective international parent companies have apparently followed national-focus strategies (in pursuit eventually of regional differentiation). That is, some important changes in organizational structures of the foreign affiliates in this East European country can be given a meaningful interpretation by the strategic behavior school.

While in the past all Bulgarian industries were dominated by one or two state-owned associations and foreign business involvement was negligible, presently most of the local industries become increasingly competitive as a growing number of Bulgarian firms, foreign companies and international joint ventures struggle for market share. For instance, there are 162 Bulgarian firms, 6 foreign companies, and 5 international joint ventures which compete with one another now in the local chemical industry. Similar figures can also be cited for the Bulgarian electronics, and machine-tool industry, etc. Clearly, very formal, markedly simple, highly centralized, and fairly integrated organizational structures were suitable in the past when the competitive environment was stable. Conversely, less formal and centralized as well as more complex and integrated organizational structures are vital in a

competitive environment which becomes more and more turbulent. In particular, growing amount of personal discretion that is allowed to people at lower and middle levels of management regarding individual job assignments, decentralization of decision-making, functional differentiation along horizontal lines, and intra-organizational integration through, besides other means, cultivation of lateral links cutting across lines of authority can easily be comprehended from the point of view of the strategic behavior school, since an increasing number of people in the firm become directly exposed to external pressures and consequently accumulate valuable business experience as competition intensifies. In addition, greater functional differentiation combined with efforts to increase organizational cohesion are clearly recognized by the strategic behavior scholars (Lawrence and Lorsch, 1967; Mintzberg, 1979; Porter, 1980 and 1985; Hax and Majluf, 1984; Horwitch, 1992) as being expedient approaches to achieve competitive superiority in pursuit of more aggressive strategic objectives.

On the other hand, the received strategic behavior theories cannot explain the apparent similarity in the evolution of organizational structures of foreign subsidiaries doing business, worthy of noting, in different industries. It should be emphasized that the strategic behavior school contends that organizational structures of firms, like Systematics and Fanuc-Machinex, doing business in high-technology industries are generally more informal, decentralized, and complex than the organizational structures of

companies, like Chimtrade, engaged in conventional technology industries (Lawrence and Lorsch, 1967; Aldrich and Pfeffer, 1976).

But as the case studies of Systematics, Fanuc-Machinex, and Chimtrade have shown, the organizational structures of foreign subsidiaries in Bulgaria generally tend to become increasingly informal, decentralized, complex, and integrated. In order to understand this development, the strategic behavior school has to accept that the characteristics of competition in East Europe crucially depend on the conduct of power-networks in the context of the radical transformation of property rights. Hence, the role of the commonly recognized competitive forces, like rival firms, customers, suppliers, and technology is essentially diminished, and the impact of the differences in terms industry structure on the characteristics of the organizational evolution of the respective firms is to a great extent suppressed.

In addition, the sustained organizational existence of international joint ventures, involving companies which are markedly incompatible in almost every respect: venturing experience, range of critical markets served, attitude to risk and uncertainty, technological sophistication, etc., is difficult to be comprehended from the perspective of the strategic behavior school. In order to explain this phenomenon, the research analysis should obviously focus on factors whose influence extends far beyond individual firms and, even, individual industries.

In fact, the examined international companies have persistently sought to find local partners in Bulgaria who might

be willing, besides being capable, to deal with the tortuous and frustrating peculiarities of the immediate business environment in that country. So, the desire to take advantage of the opportunities created by the rapid socio-economic and political developments in Bulgaria at a low level of cultural anxiety seems to be a very important reason for the notable (although lately decreasing) popularity of the international joint venture as a preferred form of organization of foreign business involvement in the East European country.

5.3.2. Relating the strategic behavior determinants to the pattern of personnel transfer.

Since the complementary assets, which foreign parent companies previously provided to the respective Bulgarian subsidiaries, consisted mostly of specific product-embodied technologies, there was not any real need for international companies to adopt a strategy of large-scale personnel movement to local affiliates (The transfer of product-embodied technologies didn't actually require extensive personal contacts). But as the content of the contribution of foreign companies to their Bulgarian subsidiaries has recently changed (the transfer of specific product-embodied technologies has largely been displaced by the transfer of managerial expertise and process-embodied technologies), the respective international firms have accordingly recognized the necessity to modify their strategy regarding the transfer of personnel. Moreover, relatively larger-scale movement of people is

clearly conducive in the particular circumstances to increase in the strategic capabilities, since the successful transfer of managerial expertise and process-embodied technologies does require prolonged and direct personal contacts (Rosenberg and Frischtak, 1985; Baranson and Roak, 1985).

In other words, strategic behavior theories can reasonably account for certain recent trends of the transfer of personnel between world-wide centers and regional affiliates of the foreign parent companies on one hand, and their Bulgarian subsidiaries on the other hand. The current strategic behavior school lacks, however, relevant concepts to explain the obvious discrepancy at present between the number of Bulgarian transferees and the number of foreign senior managers and technical specialists transferred to Bulgaria.

As a matter of fact, the persistence of acute cultural anxiety due to the big difference between the cultural norms of the non-Bulgarian employees, on one hand, and the tortuous, highly-bureaucratic, and still heavily-politicized ways of doing business in Bulgaria on the other hand, has appeared to be the actual cause for the transfer of foreign personnel to the respective Bulgarian affiliates to remain limited even now.

Hence, the institutional school can, focusing on the role of culture (Peters, 1975; Hofstede, 1980; Gruchy, 1987) for shaping social behavior patterns, give a helping hand to the strategic behavior theories in order to provide a satisfactory explanation of the peculiarities of the personnel transfers to the Bulgarian-

based subsidiaries of international companies.

5.3.3. Relating the strategic behavior determinants to the pattern of technology transfer.

Technology transfer has been regarded by the strategic behavior school as very important vehicle of building sustainable competitive advantage. Besides, the transfer of process-embodied and people-embodied technologies has been considered to have more effective and direct impact on the cultivation of independent strategic capabilities than the transfer of product-embodied technologies (Cusumano, 1985 and 1986; Von Glinow, Schnepf and Bhambri, 1991; Kim, 1991). In this sense, the increase in the relative frequency of transferring process-embodied and people-embodied technologies at the expense of the relative frequency of transferring product-embodied technologies when the competition in the Bulgarian industry intensifies is clearly comprehensible from the viewpoint of strategic behavior theories.

On the other hand it is, by and large, difficult to find a logical explanation from the perspective of the strategic behavior school of the decrease in the degree of sophistication of the technologies transferred to Bulgaria lately. Moreover, the receptive abilities of the local subsidiaries and the technological skills of the Bulgarian engineers and service specialists have reportedly turned out satisfactory even in the cases of transferring fairly-advanced technologies. That is, the relative drop in the level of sophistication of technologies transferred

recently to local subsidiaries does not result from a lack of adequate technological capabilities at these firms. Nor does it stem from abatement of the local competition (In fact, the competition in the Bulgarian market has even increased lately). Therefore, a meaningful interpretation of the development in question could be provided only if some more or less ignored by the current strategic behavior theories factors were considered in the analysis.

For instance, the relative lessening of the level of sophistication of technologies, which have been transferred to the Bulgarian-based affiliates of international companies lately, can be given an adequate explanation, if the role of macro-institutional factors, like power-networks and property rights are taken into consideration. More specifically, the transformation of the former communist type power-network into a set of interrelated power-networks, as well as, the concomitant emergence of a new order of economic activities (based on the currently direct property rights) has generally diminished the significance of transferring fairly advanced technology as a practical way of getting into potentially advantageous exchange-of-favors relations with the dominant elite groups. Besides, the present Bulgarian power-networks are essentially interested in obtaining certain technologies of conventional sophistication, which might relatively faster be assimilated and that could subsequently improve the competitive position of the respective companies in the turbulent local business environment.

5.3.4. Relating the strategic behavior determinants to the pattern of transferring business operations.

The logic, direction and content of the transfer of business operations, which are based on maturing technologies, to Bulgaria have been to a great extent in line with certain postulates of strategic behavior theories, e.g. the model that has been formulated by Vernon (1974) following actually the evolution of the product life-cycle (examined for the first time earlier by the same scholar: Vernon, 1966).

In addition, the general increase in the value-adding scope and geographic range of business operations of foreign subsidiaries, domiciled in Bulgaria, can in a certain measure be substantiated by the received strategic behavior concepts with due account to the changes in the local competition. Thus, the shift from national focus strategy (followed in the past by all examined Bulgarian subsidiaries in pursuit of eventually nation-wide differentiation) to a sort of regional differentiation strategy (as competition in Bulgaria has intensified and the local profits have dropped) has, worthy of noting, been associated with appropriate adjustments of the current business operations. Clearly, the existence of cause and effect relations between the dynamics of external competitive pressures and the changes in strategy as well as between the strategy formulation and the structure of operations, which has been commonly assumed by the strategic behavior school, can provide a convincing explanation of the

aforementioned developments too.

The specificity of differentiation strategies, both past and present, of the Bulgarian subsidiaries appears however to stem from peculiar preferential relations to the evolving business environment rather than product or service uniqueness. That is why, the adequate explanation of the strategies of foreign subsidiaries in Bulgaria requires that a broader view regarding the sources and nature of competitive advantage be accepted. By all means, this view has to spread beyond the scope of the received strategic behavior theories.

Furthermore, it is difficult to understand from the perspective of the strategic behavior scholars at present, why the size of business operations of Bulgarian subsidiaries has persistently remained small. According to the strategic behavior school, it is logical to expect that, due to their superior strategic capabilities (technical skills, managerial expertise, etc.), foreign subsidiaries in Bulgaria must be favorably positioned to take advantage of the opportunities created as a result of the rapid changes in the immediate socio-economic environment. Moreover, through increasing the size of their business operations, the respective foreign subsidiaries can possibly achieve economies of scale, rationalization, and some other beneficial results, as it has been widely recognized by the strategic behavior scholars. In practice, the dollar amount of annual revenues of Systematics, Chimtrade, and Fanuc-Machinex has, however, either decreased or stagnated.

It has actually turned out that, because of the persisting discrepancy between the cultural norms of the non-Bulgarian managers and the behavioral requirements of the existing business practice in Bulgaria, the representatives of the respective international companies have become reluctant to authorize an increase in the volume of local business contacts. In other words, the stagnation of the annual revenues of Systematics, Chimtrade, and Fanuc-Machinex can be satisfactorily substantiated, if the role of culture is taken into account.

It should also be emphasized that the competition in the Bulgarian market appears to be influenced by factors, like power-networks and nature of property rights, which have generally remained outside of the main research focus of the current strategic behavior theories as a whole. A common feature of these theories is that they assume the existence of strong global and/or domestic competitors, who are exclusively concerned about what their most important rivals are doing, or might do. But obviously, the structure and dynamics of the Bulgarian industry are very different from the respective patterns that have been established in the industrially-developed countries.

5.4. Transaction cost perspective: The role of market structure and transactional characteristics.

The transaction cost school highlights the influence of market structure and transactional characteristics on the business activity of the firm. In addition, the transaction cost analysis is focused on the structure of individual transactions at the functional level.

It is essentially assumed that all business issues can be examined to advantage in transaction cost economizing terms, that is, the firm could secure the efficient organizing, carrying out, and controlling of the various aspects of its business activity, if it chose selectively the governance structures to be used and the assets to be transacted with external economic agents. Besides, it is presumed that market structures and transactional characteristics make a crucial impact on behavioral uncertainty and asset specificity, and that the adaptive capacity of a particular governance structure depends on the specific combination of the components of behavioral uncertainty (commonly defined as bounded rationality and opportunism) and asset specificity.

5.4.1. Relating the transaction cost determinants to the pattern of organizational structure.

The characteristics of the evolution of organizational structures of the examined foreign subsidiaries in Bulgaria essentially contradict the expectations of the transaction cost school with regard to the characteristics of the governance

structures that must be used to accommodate the transactions involving international companies on one hand, and Bulgarian state-owned economic associations or private firms on the other hand. According to the received transaction cost theories, when deliveries of general purpose industrial inputs as well as transfer of process-embodied and people-embodied technologies replace the transfer of product-embodied technologies, that is, when the traded assets cease to be transaction-specific and the incentives of the involved parties to resort to acts of opportunistic behavior in order to obtain unilateral benefits diminish (since the transfer of process-embodied technologies and people-embodied knowledge can not be effectively carried out, and the joint project will fail, if some of the parties to the agreement refuse to cooperate actively: Teece, 1976, 1981, 1986; Pisano and Teece, 1988), then the respective transaction can be more efficiently organized through the market rather than hierarchies.

In other words, it is logical to expect from the viewpoint of the transaction cost school that most of the foreign subsidiaries in Bulgaria must be dissolved and the current transactions shifted to the market. In reality, the subsidiaries of international companies in Bulgaria have exhibited increasing adaptiveness (less formalization and centralization), complexity, and cohesion of their organizational structures, that is, clear signs of progressive organizational development and, respectively, consolidation of the position of hierarchies vis-a-vis the market.

In order to explain this development, the transaction cost

school has to recognize that the sources of behavioral uncertainty may not be exclusively limited to the market structure and characteristics of particular transactions. Moreover, the transformation of the power-networks and the changes in the general nature of property rights, that is, the transformation of the dominant components of the immediate transactional environment, have appeared to be very conducive to a significant increase in the level of behavioral uncertainty, since the heterogeneity of the economic actors has eventually grown, while the predictability of their moves has sharply diminished. Besides, it may be argued that the transactional specificity of the transferred assets has not decreased lately, as even general purpose industrial inputs have to be at least slightly modified in order to become compatible with the technical specifications of, by and large, outdated industrial equipment in Bulgaria. In other words, the transaction cost school can actually account for the evolution of the organizational hierarchies of the Bulgarian subsidiaries of international companies, if the impact of the relevant macro-institutional factors on the level of behavioral uncertainty and asset specificity is taken into consideration.

5.4.2. Relating the transaction cost determinants to the pattern of personnel transfer.

The low level of intensity of personnel movement between international companies and their Bulgarian subsidiaries in the past could be considered, according to the transaction cost school,

a concomitant result of, presumably, a low degree of need to devote significant efforts to organizing, carrying out, and controlling transactions among interdependent actors. That is, focusing attention on the movement of people, the transaction cost school would presume that the cost of transacting between the respective foreign companies on one hand, and their Bulgarian employees and/or partner companies on the other hand, should have been low. This presumption, however, essentially contradicts the conclusions which have already been made also from the perspective of transaction cost theories, but taking into account the actual trends of organizational development of the local subsidiaries: transaction costs used to be high because the traded assets were largely of transaction-specific kind and behavioral uncertainty was quite significant.

Conversely, using the logic of transaction cost school, it is reasonable to expect that the active movement of personnel lately must be associated with a high degree of need to devote substantial efforts to organizing, carrying out, and controlling transactions among the involved parties, that is high transaction costs, while the analysis of the real-life tendencies of organizational development of Bulgarian subsidiaries has already led to a fundamentally different conclusion, that is, transaction costs are presently low. This obvious lack of consistency between the predictions of transaction cost theories regarding one and the same issue makes it necessary to recognize that the impact of market structure and transactional characteristics on personnel transfers

has most likely been confounded by the effect of some other relatively more important factors.

Thus, despite the high transaction costs which were characteristic of the economic exchange relations involving Bulgarian and non-Bulgarian transacting parties in the past, the top level representatives of the respective international companies did not authorize large-scale personnel transfers that might be potentially aimed at superior organizing, carrying out, and controlling the transactions of the Bulgarian-based affiliates. In fact, the maintenance of close exchange of favors relations with the communist type power-network, which appeared to be the critical success factor, turned out to be most efficiently taken care of by a small group of experienced non-Bulgarian officials. Besides, the active movement of personnel at present can actually be given a meaningful interpretation by the transaction cost school if the role of such factors as the transforming power-networks, which currently function in the context of direct property rights, is taken into account.

Consequently, it can be argued that the increase in the level of behavioral uncertainty brought about by the sweeping changes in the Bulgarian socio-economic system, including the growing heterogeneity of the composition of this system, is the main factor behind the recent efforts of the international companies to secure efficient carrying out and controlling of the transactions of the respective Bulgarian subsidiaries through actively transferring personnel.

5.4.3. Relating the transaction cost determinants to the pattern of technology transfer.

The documented shift in the type of technologies which have been transferred by international companies to their affiliates in Bulgaria (from fairly advanced product-embodied technologies to conventional process-embodied and people-embodied technologies) can be interpreted by the transaction cost school as a logical reaction to the substantial transaction costs, which used to be accumulated as a result of the concomitant high asset-specificity and behavioral uncertainty, provided that the used governance structures could not adequately accommodate those transactional characteristics (Williamson, 1975, 1985).

Besides, the growing fragmentation of the Bulgarian market and the absence of effective regulation of market behavior have generally created a possibility for an increasing number of both Bulgarian and non-Bulgarian companies to resort to acts of opportunistic behavior in the nearest future. In this sense, the transfer of mostly conventional process-embodied technologies at present can be considered by the transaction cost school a suitable approach to avoid the trade with currently or potentially transaction-specific assets, as well as, to keep the level of the attendant behavioral uncertainty reasonable with due account to the more and more obvious threat of a future upsearch of opportunistic actions and reactions. That is why, transaction cost concepts can be relevant to the formulation of an adequate explanation of the

documented trends of technology transfer by international companies to their Bulgarian subsidiaries.

5.4.4. Relating the transaction cost determinants to the pattern of transferring business operations.

The recent trend towards broadening the scope of business operations of foreign subsidiaries in Bulgaria may be interpreted by the transaction cost school as a logical response to the high level of asset-specificity and behavioral uncertainty which was characteristic of transactions involving non-Bulgarian and Bulgarian parties in the past. Consequently, the amount of transaction costs could be reduced as the number of alternative suppliers and customers is increased (which minimizes the possibility for a "lock-in" situation to occur: Williamson, 1985).

To a certain degree, the relatively small size of Bulgarian subsidiaries in the past could also be explained by transaction cost theories as a sign of adaptive reaction of the involved economic agents to the attendant danger for some asset value to be lost due to the unfavorable, then, combination of transactional characteristics. In other words, the transaction cost concepts can generally be applied to the study of the complex process of transferring business operations by international companies to their Bulgarian affiliates.

On the other hand, it is difficult to understand from the transaction cost perspective, why the size of the operations of Bulgarian subsidiaries has not increased and, as a matter of fact,

has even decreased lately. Using the way of reasoning of transaction cost theories, it is logical to expect for the size of the operations of those companies to grow because of the significant diminution of the concurrent transactional risks. Furthermore, no meaningful explanation could be provided by the transaction cost school of the relative increase in the overall economic importance of projects, carried out by foreign affiliates in Bulgaria. Obviously, the adequate substantiation of the aforementioned development requires the role of some, actually, external to the transaction cost analysis factors to be considered.

In particular, it is necessary to take into account the impact of certain macro-institutional components of the transactional environment, like power-networks and property rights, on shaping the characteristics of the attendant transactions. For instance, the disintegration of the former totalitarian type power-network and, subsequently, the emergence of new increasingly heterogeneous power-networks have appeared to pose the threat of a potentially higher-level behavioral uncertainty. Hence, it would be logical to anticipate from the standpoint of transaction cost theories that the local affiliates of international companies must be compelled to seek new projects of significant economic importance for the other transacting parties, that is, transactions in which it is less likely for the other parties to behave opportunistically.

TABLE No 5.1

BASIC THEORY

**INDEPENDENT
THEORETICAL
CONSTRUCT**

**INSTITUTIONAL
ENVIRONMENT AND
CULTURAL NORMS**

**DEPENDENT
THEORETICAL
CONSTRUCT**

**FOREIGN BUSINESS
INVOLVEMENT IN
BULGARIA**

**INDEPENDENT
OPERATIONAL
VARIABLE**

**POWER-NETWORKS
PROPERTY RIGHTS
CULTURAL**

CONCORD

**DEPENDENT
OPERATIONAL
VARIABLE**

**ORGANIZ STR PATTERN
PERSON TRAN PATTERN
TECHN TRANS PATTERN**

**TRANS OF BUS OPERATS
PATTERN**

TABLE No 5.2

ALTERNATIVE EXPLANATIONS

INDEPENDENT
THEORETICAL
CONSTRUCT

COMPETITIVE
ENVIRONMENT
AND STRATEGIC
CAPABILITIES

MARKET STRUCT
TRANSACTIONAL
CHARACTERIST

DEPENDENT
THEORETICAL
CONSTRUCT

FOREIGN BUSINESS
INVOLVEMENT IN
BULGARIA

INDEPENDENT
OPERATIONAL
VARIABLE

COMPOSITION AND
DYNAMICS OF
COMPETITIVE ENV

POSSESSION OF
STRAT CAPABILS

BEHAVIORAL UNCER
ASSET SPECIFIC

DEPENDENT
OPERATIONAL
VARIABLE

ORGANIZ STR PATTERN
PERSON TRAN PATTERN
TECHN TRANS PATTERN

TRANS OF BUS OPERATS
PATTERN

CONCLUSIONS

The descriptive analysis of the business activity of Systematics, Chimtrade, and Fanuc-Machinex has given an opportunity for the specific characteristics of the patterns of foreign business involvement in Bulgaria to be clearly defined. In accordance with the results of that analysis, it has been established that the organizational structures of foreign subsidiaries in Bulgaria become increasingly informal, complex, decentralized, and internally integrated; the movement of Bulgarian managers and technical specialists within the management systems of international parent companies grows, while the transfer of non-Bulgarian personnel to the respective affiliates in the East European country remains insignificant; the transfer of fairly advanced product-embodied technologies is largely displaced by the transfer of conventional process- and people-embodied technologies to Bulgaria; and the annual revenues of foreign subsidiaries in that country remain small, while the value-adding scope, geographic range, and relative importance of the business operations of these firms grow.

In addition, the use of the Global Integration/ Local Responsiveness framework has made it possible to put a meaningful theoretical interpretation on the specific content of the patterns of international business activity in Bulgaria. That is why, the

recent efforts of some scholars to create a special theory of doing international business in East Europe have appeared to be premature. In other words, it is not necessary to "reinvent the wheel" in order to gain a deeper understanding of the characteristics of foreign business involvement in East Europe. Besides, the operationalization of the Global Integration/ Local Responsiveness framework gives an opportunity to avoid the danger of fostering regional parochialism in East European business studies at the expense of the collaboration among scholars from different countries. Worthy of noting, the joint research of international business scholars, who are curious to verify the validity of some modern management concepts, and regional specialists, who possess extensive empirical knowledge on the actual ways of doing business in East Europe may effectively promote rapid future progress in the field of East European business studies.

Furthermore, the task environment in East Europe in general and, particularly, in Bulgaria has turned out to be characterized by a powerful and influential socio-political component, namely the powerful elite groups (formerly the network of the communist nomenclatura), a healthy technological component, and traditionally weak, although recently picking up, competitor, customer, and supplier components. The application of the Global Integration/ Local Responsiveness framework to the study of the patterns of international business activity in Bulgaria has also highlighted the role of the establishment and maintenance of preferential

exchange-of-favors relations with economic elite groups, as well as, the effective transfer of market-oriented knowledge as the critical success factors in the East European country at present.

Moreover, the use of that integrative framework allows to determine the general orientation of the patterns of foreign business involvement in Bulgaria. As a matter of fact, the overall orientation of these patterns appears to be a logical outcome of the current changes at the examined Bulgarian subsidiaries along the critical two dimensions: global integration and local embeddedness.

In greater detail, the case studies of Systematics, Chimtrade, and Fanuc-Machinex have given ample evidence that, in the first place, the coordination between the organizational mechanisms of these foreign subsidiaries and the organizational mechanisms of their international parent companies tends to grow; the incorporation of employees of Systematics, Chimtrade, and Fanuc-Machinex in global management systems of the respective international firms takes more and more often place; the technological intensity (that is, the extent to which the technological basis of the national affiliate consists of technologies specific for foreign parent company) of the Bulgarian subsidiaries has the tendency to increase (mostly through frequent transfers of proprietary process-embodied technologies to the East European country); and the integration of the functional operations of Systematics, Chimtrade, and Fanuc-Machinex in global business operations of their international parent firms becomes more and

more pronounced.

In the second place, the case studies of the selected three foreign subsidiaries have clearly shown that the adaptation of the organizational processes of these firms to the characteristics of the immediate business environment tends to grow (moreover, the enforced subordination to the bureaucratic model imposed by the dominant communist power-network has been largely displaced by deliberate and flexible adjustments of the current organizational mechanisms with due account to the dynamic changes of the task environment in Bulgaria); the personnel policies of Systematics, Chimtrade, and Fanuc-Machinex become more and more closely associated with the supply and qualifications of local labor; the effectiveness of technology transfers to local companies increases; and the aggregate of functional operations of Bulgarian subsidiaries has the tendency to enhance the industrial capabilities of the East European country. In brief, it can be generalized that the business activity of foreign affiliates in Bulgaria is characterized by both increasing integration in global activities of the respective international parent companies and deepening embeddedness in the local context (TABLE No C.1).

Furthermore, the interpretive analysis of the collected data has indicated that power-networks, property rights, and cultural concord have actually been the critical determinants of the patterns of international business activity in Bulgaria. In other words, it has been established that the institutional theory can provide an adequate explanation of the complex changes in the

composite elements of the foreign business involvement in the selected East European country.

Therefore, it can be concluded that the institutional theory should be used more actively to study the comprehensive and dynamic processes in East Europe. Moreover, some inspiring results have already been achieved in this respect (see Stark, 1990; Sajo, 1990; Szelenyi, 1991). It is also recommended that the role of both homo socialisticus and homo technocratis, that is the main institutional personalities, be taken into consideration in order that the accuracy and empirical relevance of the research findings of East European studies may increase.

In addition, the strategic behavior and transaction cost theories have proved useful to analyze and understand most of the specific characteristics of the patterns of international business activity in Bulgaria. Nevertheless, the capacity of these theories to provide a complete and adequate explanation of the changes in the composite elements of foreign business involvement in the East European country has appeared to be limited by their relatively narrow fields of reference. Hence, it is recommended for the strategic behavior school to recognize that power-networks and property rights may be crucially important competitive forces. In fact, they are the most powerful and influential competitive forces in the business environment in Bulgaria. So, strategic positioning and, consequently, competitive strategy prove to be associated with two major types of competitive forces: at the macro-level of aggregation (power-networks, property rights, and technology) and

at the micro-level of aggregation (present competitors, new entrants, suppliers, and customers) (TABLE No C.2).

Besides, it has turned out that competitive advantage can be built not only through low-cost operations or product and service uniqueness, but also through establishing unique preferential relations with the dominant power-network or economic elite groups. Actually, the creation and maintenance of preferential business relations with the economic elite groups is regarded as the most important source of competitive advantage in Bulgaria at present.

It is also recommended that the transaction cost school recognize that the level of behavior uncertainty depends not only on the characteristics of market structure, that is on the characteristics of the micro-transactional environment, but also on the specific features of the macro-transactional environment, in particular power-networks, property rights, and culture. The external validity of transaction cost concepts may also increase if they are reformulated with due account to the consideration that the efficiency of governance structures is contingent not only on transactional specificity of the traded assets and the opportunistic behavior of suppliers and customers, but also on the conduct of power-networks in the context of the concurrent property rights and cultural norms.

To be sure, there are some peculiar characteristics of the business activity of Systematics, Chimtrade, and Fanuc-Machinex that seem to be too unique to be explained by any major organizational theory, including the institutional, strategic

behavior, and transaction cost theories. For instance, the poor technology transfer record of these three companies in the past has appeared to be mostly associated with the huge discrepancy between the technical parameters of the imported engineering products and the parameters of the generally outmoded and unreliable local manufacturing equipment on one hand, as well as, with the lack of established procedures at the Bulgarian client-companies to support the active assimilation of foreign technical and managerial knowledge on the other hand.

That is, the poor technology transfer record of Systematics, Chimtrade, and Fanuc-Machinex isn't essentially associated with the role of power-networks, property rights, components of the competitive environment, strategic capabilities, or transactional characteristics. Similarly, the establishment and maintenance of close relationship between Systematics and the academia at present seems to be mostly prompted by the personal aspirations of some top-level managers of this firm.

Finally, it is possible to use the research findings of the study of the patterns of international business activity in Bulgaria in order to give some advice to western businessmen, who may want to get involved in either a centrally-planned economy (like China, North Korea, and Cuba), or an East European country (like Bulgaria, Hungary, Czechoslovakia, Poland, and Rumania).

Accordingly, western companies that may be willing to carry out business operations in a centrally-planned economy should anticipate to be "encouraged" by the respective communist

government to do business exclusively with preselected "prestigious" local economic associations. Alternatively, foreign affiliates may be required to transfer advanced product-embodied technologies to some designated "prestigious" local projects. In both cases western businessmen are advised to select carefully their business approach, keeping in mind the consideration that in a centrally-planned economy foreign firms have essentially only two viable options -- to establish preferential exchange-of-favors relations with the dominant power-network, or to withdraw completely from the local market.

In addition, the communist government may require that western investments be tied into specific funds (established for strictly defined purposes). Hence, foreign affiliates may have some difficulty in using efficiently their own money in a centrally-planned economy, since a transfer of financial resources from one fund to another may be vastly delayed and even impeded by the tortuous bureaucratic procedures, characteristic of that kind of economic organization. Besides, western businessmen should find a practical way of dealing with the slow and ineffective banking system, excessively bureaucratic rules for export and import control, and numerous restrictions to personnel movement that are typical of any communist-controlled country.

Furthermore, western firms, which plan to get involved in some East European country, should anticipate to do business with local companies that are managed and owned by members of the former communist nomenclatura, that is, by people with old-time mentality.

Moreover, prospective foreign affiliates in East Europe are advised to learn how to deal with the still backward rules for labor remuneration, lack of appropriate industrial discipline, and incomplete convertibility of local currencies. Therefore, the accumulated country-specific experience appears to be a very important strategic asset for western companies, which want to expand their value-adding operations in an East European country.

Certainly, it is necessary to take into account the fact that the empirical data base of the study of the pattern of foreign business involvement in Bulgaria has been built in only one country in East Europe. That is why, the external validity of some of the findings of this study should be accepted with reasonable caution. Obviously, further research is needed to expand the present empirical data-base through both conducting large-scale surveys and developing company cases in, at least, a couple of Central-East European countries and a couple of South-East European countries.

TABLE No C.1

GENERAL ORIENTATION OF THE PATTERNS OF FOREIGN
BUSINESS INVOLVEMENT IN BULGARIA

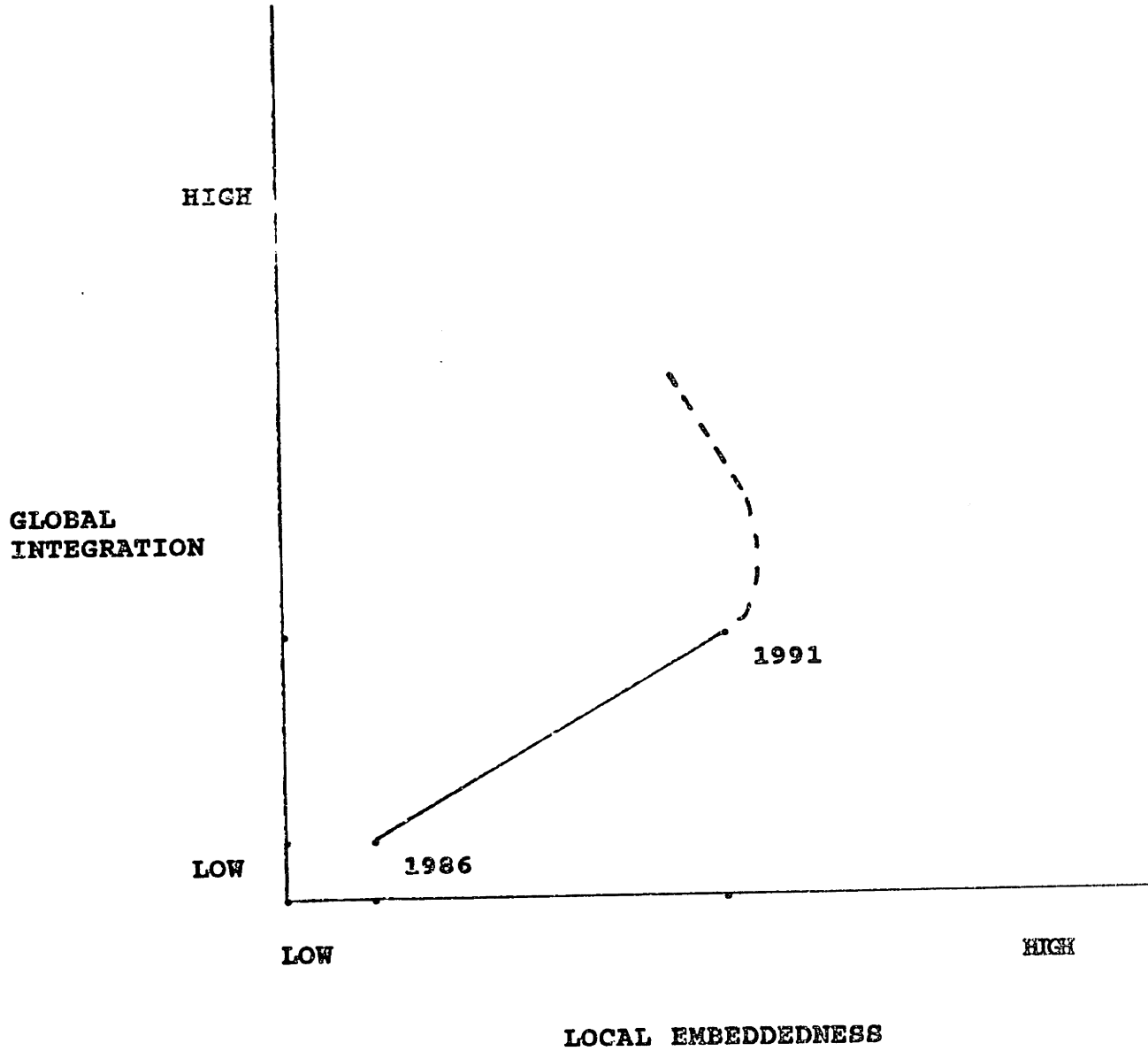
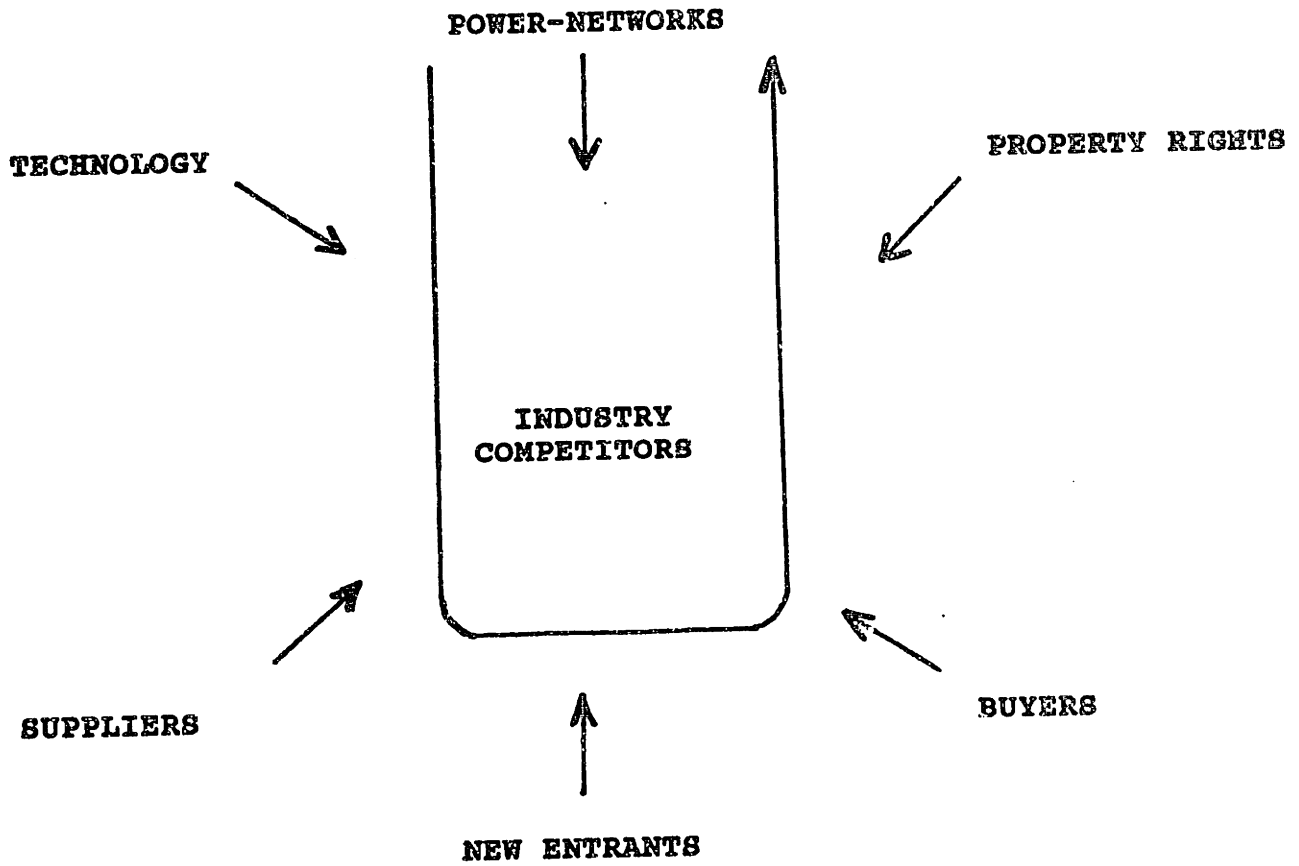


TABLE No C.2

FORCES DRIVING COMPETITION



APPENDIX No 1

INSTITUTIONAL STRUCTURE OF BULGARIA IN 1986

1. Introduction

Bulgaria was still a totalitarian country in 1986. Its socio-cultural system was largely based on three types of monopoly -- the ideological monopoly of the Marxism-Leninism; the political monopoly of the Bulgarian Communist Party; and the monopoly of the state over economy. All three of them inflicted heavy damages on the Bulgarian society, but, note-worthy, the ideological monopoly of the Marxism-Leninism proved to be especially disastrous. It actually provided the cultural basis on which the other two types of monopoly emerged and developed.

In accordance with the stringent structure and pathological content of the Marxist-Leninist ideology, the individuals were forced to accept behavioral norms like class and party discipline, proletarian internationalism, "revolutionary" coercion, formal unanimity, "democratic" centralism, selflessness in the name of the "bright future", and comradesly attitude toward the other members of the society, aesthetic norms like "socialist realism" and universally-developed personality, methodological norms like the

indisputable supremacy of the Marxism, and criteria for assessment based on total negativism that recognized only extremities like good and evil, the class of "working proletariat" and the class of "parasite bourgeoisie", the progressive socialist culture and decadent capitalist culture, etc.

Besides, the ideological monopoly of the Marxism-Leninism, enforced by the communists, resulted in large-scale application of stereotype rules of behavior and standardized interpretation of social events, which, in turn, put severe limitations to the self-consolidation of personal points of view. This way, people gradually became morally and intellectually impotent.

1

2. "Dissemination of rational public knowledge".

Diffusion of rational public knowledge in totalitarian Bulgaria was significantly influenced by the policies of the communist regime which were aimed at achieving certain socio-political objectives. Eventually, those policies were based on the dogmatic system of pseudo-moral and pseudo-scientific principles of the Marxist-Leninist ideology.

That ideology claimed deliberately to be deterministic by

1. The analysis of the Bulgarian institutional structure takes advantage of the set of main institutional parameters of the total socio-cultural system that has been introduced by Gruchy (1987).

nature -- the so-called "objective laws of the socio-historical development" were supposed to operate by definition irreversibly in the direction of more progressive societies, i.e. from feudalism through capitalism to communism. Consequently, the individual was perceived as a predetermined function of the system. People were supposed to act "responsibly" in the context of the concrete and internally consistent system of "production relations".

In essence, the overriding principles of the communist ideology aimed at substituting for fundamental human behavioral norms like the freedom of religion and world outlook, the responsibility for one's own private affairs, and the right of having personal identity. Naturally, people's creativity and desire to learn were, in effect, discouraged under such circumstances. Therefore, diffusion of knowledge in Bulgaria used to be impeded, in the first place, by the fundamental characteristics of the existing socio-cultural system.

Dissemination of rational public knowledge in Bulgaria was carried out through a network of state research institutes, educational establishments and information agencies under the strict control of the central authorities.

There were about 60 major research institutes in Bulgaria half of which (29) were administratively centralized under the umbrella of the Bulgarian Academy of Sciences. Besides, the activities of all those institutes were closely monitored by the government agencies which were responsible for the enforcement of the so-called Unified State Plan for Techno-Scientific and Socio-Economic

Development. The joint administration of research institutes was, however, incapable of overcoming the significant disintegration which existed between social and technical research in Bulgaria.

Since physical production was artificially elevated by the Marxist-Leninist ideology above the other social spheres and was declared to be the "foundation" of the whole society, technical knowledge and, respectively, technical research were given a top priority and the quasi-values of technological determinism received a strong support by the propaganda machine of the communist authorities. Hence, Bulgarian government allocated huge outlays for stimulating technological research and development, as well as, strengthening the technological infrastructure in the country.

Under those circumstances, Bulgarian technical institutes achieved good results in the so-called basic research. Bulgarian specialists were also relatively successful when it came to do engineering on an already developed product. But they were very weak at the applied research and development stages of the innovation process. In general, the discrepancy between the first and last phases of that process and its core stages was enormous. Curiously enough, Bulgarian engineers were better in doing reverse engineering on a foreign product than in developing some locally generated ideas. In this sense, the dissipation of technological resources in Bulgaria was a common practice and the efficiency of the applied research and development was strikingly low.

A major reason for that setback could be seen in the inherent weaknesses of the established pattern of technological innovation

in Bulgaria. Basic research was done there at highly centralized and fully sponsored by the government technical research institutes. The same people and institutes were routinely entrusted also with the responsibilities of conducting applied research. But since many of those scientists and engineers lacked practical industrial knowledge, it was not surprising that many generally promising technical inventions were virtually barred from further advancement.

The development stage was, in its turn, done in the big industrial complexes. But normally it took years for a technical invention to pass through the whole chain of involved bureaucratic institutions and, finally, reach the interested industrial users. At that time, however, it was everything but new. Moreover, company managers were not very much interested in experimenting with new technologies because the uncertainty, additional effort, and, sometimes, frustration that accompany every innovation process were not adequately compensated in Bulgaria. Consequently, people were actually deprofessionalized due to the functioning of the existing social mechanisms.

Deprofessionalization of Bulgarian workers and managers was further exacerbated as a result of the policies of the central government towards diffusion of knowledge regarding social processes.

Since, the communist ideology accepted only that part of the accumulated social knowledge which was consistent with the postulates of the Marxist socio-economic model, everything else

was proclaimed "non-essential". Note-worthy, management studies, microeconomics and macroeconomics were included, along with other things, in the "non-essential" category. In addition, social studies were oriented less toward revealing the cause and effect relationships in real-life processes and more toward substantiation of the "desirable", "necessary", or "ideal" types of social behavior. The so-called "class and party" outlook was supposed to dominate over scholastic thinking, which was in turn supposed to transform political decisions into scientific concepts. For instance, the categories used by the so-called "political economy of socialism" (an artificial product of the Soviet social science that was created at a direct order of Stalin in the early 1930s) were grotesquely constructed as clear antipodes of the categories of the classical economics. The idea was to contrast the new social system, which presumably was free of exploitation, to the old social system where exploitation of people was a common practice.

Furthermore, empirical research was considered entirely inappropriate and scholastic efforts were supposed to focus mostly on specifying some abstract categories and notions. Bulgarian social science was also characterized by a high-level conformism and, hence, very few manifestations of deviation from the orthodox Marxist postulates. As a result, diffusion of rational social knowledge through research institutes in Bulgaria was not only seriously restricted by certain systemic impediments, but also the content of that knowledge was watered-down with some irrational

ideological concepts.

Under the conditions of the totalitarian regime education was also smothered by the communist dogmas and pseudo-values, aimed at protection and reproduction of the dominating social order. Education was, in particular, greatly damaged by the illusory notion of the supremacy of the progressively-developing communist system over the "parasite", "decaying" and "dying" capitalism. The "new social order" was proclaimed to be free of chaos and built on consistent scientific principles. Marxist-Leninist theory was supposed to be impeccable and, in fact, the only right social theory.

In addition, the instruments of the communist education in Bulgaria set in motion a whole range of social mechanisms, which eventually led to almost complete depersonalization of students - - citations of the communist "classics" (Marx, Engels and Lenin) were supposed to substitute for personal opinion; truth was displaced by ready-made answers, which put rigid limitations to creative thinking; students were always supposed to adhere to Marxist-Leninist schemes even when they approach issues beyond the domain of social sciences. Thus, education in Bulgaria was deprived of problem-solving oriented discussions and considering diverse points of view.

The services of Bulgarian information agencies (The State Committee for Radio and Television Broadcasting and The Bulgarian Telegraph Agency) were also actively used by the central authorities for brainwashing the population of the country. Those

institutions invariably defended the viewpoint of the Bulgarian government. So, the general public was provided only with carefully selected and screened information. Dissemination of rational public knowledge was, consequently, subjected to severe institutional restrictions.

3. "The nature of the prevailing social and political institutions".

Democratic traditions in Bulgaria are historically weak. As a matter of fact, the Bulgarian history is composed of long periods of authoritarian oppression and/or acute social contradictions. The absolute monarchy was the dominant political institution during the second Bulgarian Kingdom (until the end of the 14th century) as well as during most of the third Bulgarian Kingdom (after the national liberation in 1878). Besides, between the World Wars Bulgaria went through several bloody coups, two mass uprisings (organized by the communists), a few military regimes, followed by fascist dictatorship, and, as a result, the country became deeply divided between the right-wing forces (leaning towards the fascists) and left-wing forces (grouped around the Communist Party).

After the communist coup in 1944, Bulgaria was shaken by a new wave of political repressions -- the ruling Communist Party put all its dangerous opponents in jail, or encamped them at the

so-called "labor and educational communities". More than 23 000 people were subjected, without being officially sentenced, to forceful "re-education" in Bulgaria during the period between 1945 and 1960. Moreover, the Bulgarian communist regime did not allow social tensions to reach a critical point, nor would it tolerate any overt display of discontent. So, that country never went through the purgatory of a Hungarian 1956, Czech 1968, or Polish 1980.

Furthermore, the communists gradually enforced a social system in Bulgaria characterized by a complete coalescence of the state and party hierarchies as well as of social and political institutions. As a result, the communist political structures began to play more and more active role in the running of the Bulgarian society at all hierarchical levels, taking advantage of the prerogatives associated with having an absolute administrative power, but without bearing any administrative responsibility. Consequently, the Communist Party, without being accountable for the immediate and long-term results, managed to enforce some artificial social structures and counterproductive norms of social behavior in Bulgaria.

3.1. Social Institutions.

Generally, the communists tried to reshape the whole Bulgarian society in accordance to the structure of their party, which they

proclaimed as exemplary. Eventually, the huge communist hierarchy was replicated numerous times and at different levels of the local society.

The Bulgarian parliament used to function mechanically -- the laws and other social issues were not discussed, but only voted for unanimously, and there were hardly any real political debates. Very often, the decisions taken by the parliament were rendered invalid by decrees and regulations issued by other state institutions, like the Council of Ministers or the State Council.

The Council of Ministers and the State Council were both supposed to be the highest-ranking executive state bodies and, in fact, they very often duplicated each other. Generally, they were exclusively staffed with communists and they functioned on the orders of the Politburo -- the supreme governing body of the Communist Party.

The social structures in 1986 Bulgaria were reinforced by the indoctrination of people with the dogmatic ideas of the so-called "democratic centralism" and norms of the "socialist moral", like the "objective" nature of the class struggle, the need for "revolutionary" coercion, the historic significance of the "proletarian" dictatorship, the role of the "red" terror, and the logic of the World Socialist Revolution.

The Communist Party did not see real personalities in either its members or, even in a smaller measure, the other members of the society. Accordingly, the "supreme principle" of democratic centralism required that people (communists or non-communists)

could only vote (by all means, affirmatively) and follow closely the orders coming from the top of the party/state hierarchy. Personal points of view, which deviated from the mainstream communist directives were not tolerated and were even persecuted by the law as an "illegitimate breach of the supreme principles of the society", i.e. the Bulgarian Communist Party enforced its paramount ideals to become a normatively-sanctioned requirement for social activities of all Bulgarians. As a result, social behavior in Bulgaria became marked by the "sense of hierarchy" --people's actions were evaluated by the society with account to the position(s) in the party or state hierarchy of the involved individuals.

In essence, the guiding principles of the "democratic centralism" and "socialist moral" used to be instrumental in supporting the spiritual tranquility and, respectively, the civil order in the totalitarian society because these ideological norms used to instil, at least, a formal agreement among people to adhere to the ways of behavior that were supposed to be appropriate. People got accustomed to following closely some prescribed moral patterns, which had been enforced by the Communist Party in order to institutionalize the rudimentary existence of individuals under the conditions of total subordination to the central authorities. The Bulgarian society became, however, increasingly stagnant.

To be sure, the Communist Party was not capable of offering a genuine solution to that problem, which would require the complete elimination of the existing totalitarian structures. But

being faithful to their heavily-loaded with ideology paramount social principles, the communists tried to institutionalize some artificial dynamics in the Bulgarian society. Thus, people were supposed to "grow" in the local society through the formal socio-political structures of the Chavdarche organization (for those who were between 6 and 9 years of age), the Pioneers' organization (for Bulgarians between 10 and 14 years of age) and, subsequently, the Young Communists' League (known in Bulgaria under the name of Comsomol). The most "mature" individuals who had reached at least 18 years of age were finally allowed to join the Communist Party. This way, the social accomplishments of those individuals were officially recognized and, presumably, rewarded.

In general, the structure of the totalitarian society in Bulgaria in 1986 consisted of three large categories of people: members of the Communist Party, non-communists, and anti-communists.

The communists were supposed to be active, conscientious, selfless, etc. Essentially, they had to provide an example of appropriate social behavior to the rest of the Bulgarian public.

The non-communists, who were supposed to be passive, unconscious of the social reality, and subject of positive influence and re-education, emerged as a very important social group from the view point of the central authorities. Initially, the division between non-communists and communists was meant to illustrate the existence of substantial social tension which could justify the necessity for the Communist Party to stay firmly in

power in order to be able to play its historic leading role in the reconstruction of the Bulgarian society. Eventually, the entire totalitarian system was based on the carefully controlled balance between non-communists and communists -- the gradual "objective" decrease of the number of non-communists and, respectively, the progressive increase of the number of communists were supposed to demonstrate that the so-called "socialist society" was only a temporary (but necessary) step on the way to the ultimate victory of communism.

The category of the anti-communists, who had to play the role of the "public enemy", included former "bourgeois" politicians, people whose property had been confiscated by the communist authorities, people who had spent some time at the concentration camps for ideological "re-education", "bourgeois" intellectuals, as well as the immediate families of such people. Note-worthy, anti-communists in Bulgaria were a very diverse social group -- some of them managed to preserve their internal identity (even in the absence of the possibility to declare openly their "external", i.e. actual social, affiliation) throughout all the years of communist oppression; others became almost entirely indifferent towards all sorts of social dissent and were even willing to cooperate with the communists.

So, the totalitarian system in Bulgaria was essentially based on multiple social divisions. In addition to the traditional lines of cleavage, e.g. between the blue-collar and white-collar workers, artistic intelligentsia and technical intelligentsia, the

intelligentsia as a whole and the working class, Bulgarians were artificially partitioned between communists and non-communists, "loyal" members of the socialist society and "enemies of the people", etc.

Real-life social processes were however deliberately subdued and the state authorities tried to conceal the most pronounced cleavage in the local society -- the cleavage between the ruling communist "nomenclatura" and the rest of the Bulgarian people. The members of the so-called "nomenclatura" were the real masters of the country. They were not selected with account to their professional training, or personal aptitude. Political experience and ideological training were also mostly irrelevant. What really mattered was the demonstrated level of personal loyalty towards the superiors in the Communist Party/state hierarchy, and, in the first place, towards the General Secretary, who invariably was the President of the country too. Generally, the nomenclatura secured its position in the Bulgarian society through the vigorous support of a wide network of communist activist groups, which were established by the Communist Party in all social spheres.

Gradually, nomenclatura became totally disassociated from the problems of the Bulgarian society. It got actually transformed into a parasite social group whose very existence had detrimental impact on the moral of the whole local society. Since the dominant standard of judgement in Bulgaria was the sense of social justice based on traditional egalitarian moods, what people really resented was, worthy of noting, not the low living standards (in this

respect Bulgarians always had little expectations) but social abuses of nomenclatura linked to "deviations" from the generally acknowledged standards of egalitarianism. Hence, people in general were actually demotivated to contribute to the development of their country.

3.2. Political Institutions.

One of the pillars of the totalitarian rule in Bulgaria was the political monopoly of the Communist Party. In accordance with the Marxist ideology, the Communist Party had continuously to grow, becoming more and more a party of the entire nation. This way, there would presumably be less political dissent in Bulgaria and greater stability in the political structure of the country.

In addition to the "sacred" Marxist-Leninist ideals, the Bulgarian communists adopted (actually inherited) most of the norms -- social arrogance and brutality as well as wide-spread corruption and political hypocrisy -- that were typical of the Balkan societies in general. The dissemination of those behavioral norms in Bulgaria was a relatively easy task because they had already found a stable ground in the social consciousness in that country. In addition, practically deprived of a chance to experience genuine democracy, Bulgarian people remained rather indifferent to the values of individual civil rights and liberties. Consequently, the Bulgarian Communist Party unilaterally declared its political

platform not only to be best, but also to be the only one worthy of actual existence. This way, the communist established an absolute ideological and political monopoly in Bulgaria which used to meet a relatively weak, even negligible, opposition. In such circumstances, the Communist Party did not have much trouble to eliminate from the political scene in that country everybody, who disagreed with the ambitions of the party to dominate over the political structure of Bulgaria.

Entirely in compliance with the communist rhetoric, the Communist Party persistently claimed that there was a pluralistic and democratic political structure in Bulgaria. In fact, the political structure which emerged in the post-war Bulgaria included several, at least officially, different political organizations - - the Bulgarian Agrarian People's Union (actually just a faction of the pre-war Bulgarian Agrarian Union, whose leadership agreed to follow closely the political directives given by the communists), the Fatherland Front, the so-called Comsomol, etc. - - all of which, however, invariably supported communist ideological principles. Moreover, the leadership of those political organizations became a part of the communist nomenclatura, while the respective organizations were transformed into handy political instruments, serving faithfully the interests of the Communist Party and, most of all, of the communist elite.

4. "Consistency between the behavioral requirements of the prevailing economic institutions and the established cultural norms".

The paramount economic institution in totalitarian Bulgaria was the centrally-planning system. Comprehensive and elaborate central plans with a five-year span were regularly prepared by supposedly highly competent economists. Those plans involved the most important material, financial, labor force, foreign-exchange and technological balances at national, industry and regional levels. Furthermore, the central plan comprised all important economic indicators and the specific action programs, which were supposed to secure the orderly achievement of those indicators.

Subsequently, individual economic units had diligently to carry out the tasks assigned by the central plan. In addition, Bulgarian economic organizations were supposed to act in close co-operation with each other and to provide regularly accurate information of their current performance to the central authorities.

In brief, the success of the centrally-planning system presumed interorganizational and interpersonal relations of tight subordination, high-level professionalism, skilled and active labor force, large-scale co-operation, high-degree of correspondence between personal and group interests, conscientious economic behavior, and personal honesty.

The Bulgarian centrally-planning system as well as the other economic institutions in the country (which were, by and large,

derivatives from the centralized planning) were, however, just a part of the Bulgarian socio-cultural system. Note-worthy, that system was based on cultural norms, which were mostly influenced by Marxist-Leninist dogmas.

Essentially, in order to reinforce its position in the Bulgarian society, the ruling Communist Party was very persistent in imposing its paramount ideals on the national culture. Presumably, the communists fought for the preservation of the "noble party criteria and values". But indiscriminate and large-scale enforcement of the communist dogmas in Bulgaria brought about mostly conformism, alienation, cynicism, and despair, since it was not very difficult for the Bulgarian people to recognize over the time the real meaning of those criteria and values.

Furthermore, people who were required to be "persistent Marxists-Leninists" or "ardent internationalists" were generally confused what they were actually supposed to do. Slogans, like "Always Loyal To The Party" did not instil sense of commitment to become good professionals, managers, or workers. Eventually, the abstract communist principles brought about social passiveness - -people were not encouraged to work harder and become more scrupulous. Therefore, the enforcement of the communist-style cultural norms proved to be the institutional basis of economic passiveness in totalitarian Bulgaria. Moreover, the communist dogmas did not instil a sense of respect to the people, who were capable, intelligent, and active in increasing their personal wealth. Communist-style cultural norms also elevated the importance

of the pseudo-human "petty person" -- a person, who was convinced that nothing depended on him (besides fulfillment of his job-related duties) because "there were other people (presumably more capable), who took decisions". This way, the communist dogmas played a significant role in making people economically and socially weak.

In addition, the very logic of the economic institutions in totalitarian Bulgaria proved eventually to be a factor, which facilitated the establishment of counterproductive cultural norms in the country. Economic practices, like wage-levelling, denunciation of private property, disregard of personal interests, large-scale concentration of production processes and excessive centralization of economic management were actually a major cause for the erosion of traditional Bulgarian values, which used to emphasize the link between hard work and personal prosperity. Moreover, fundamental human virtues (which used also to be a part of the Bulgarian culture before World War II), like professional honesty, personal modesty, diligence at work place, and pride in one's product, were greatly depreciated, while mediocrity, hypocrisy, abuse of authority, excessive bureaucratization and some other vicious practices became increasingly characteristic of the actual economic behavior in Bulgaria.

It should be emphasized that Bulgarian culture was also negatively influenced by certain idealistic notions, which were typical of the national psychology in that country. Those notions were mostly a legacy of the Bulgarian historico-cultural

development which was generally associated with constant struggles for consolidation of the nation and long periods of foreign oppression. Consequently, Bulgarians showed an inclination to perceive the world in extremely pathetic and polarized terms -- people and groups of people were either villains or victims; heroes or cowards; saints or sinners; etc. Hence, Bulgarian culture became characterized by a lack of tolerance.

A constructive interplay among different points of view was made practically impossible then in totalitarian Bulgaria due to the influence not only of the communist dogmas, but also of the typical features of the Bulgarian national psychology. Social life became increasingly depersonalized which facilitated the formation of communist-style norms of group behavior. This way, the link between the individual and the society became even slimmer and more erratic since the gap separating resilient personal conscience (still influenced by the fundamental human values) and officially sanctioned cultural norms grew bigger and bigger. Moreover, personal value systems became progressively split into two generally contradicting constituencies, thus injecting confusion into one's mental schemes. A significant disbalance appeared also among the major regulators of social behavior, like formal law, public opinion and personal conscience.

Worthy of noting, the imposing of communist-style cultural norms in Bulgaria eventually materialized in "homo socialisticus"-- a pseudo-personality with a standardized behavior. He was always ready to denounce his individuality, national identity, and even

his human characteristics. Thus, he could put on different social masks without any moral remorse in order to adapt to his particular situation. Homo socialisticus was not interested in cultivating his own intellectuality and he always showed off his "collective style" of making decisions. In fact, he closely adhered to authoritarian methods of management and he simulated a grotesque of group decision-making just to conceal his professional incompetence. Besides, homo socialisticus was active in putting on airs of assiduousness, while in reality he did not produce much of a positive result. He was reluctant to take risks and invariably tried to adhere to some ready-made schemes. Homo socialisticus eventually reduced problem-solving to repeating citations of Marx, Engels, Lenin, and Zhivkov (the former General Secretary of the Bulgarian Communist Party). This way, he explicitly demonstrated his "spiritual maturity" and implicitly cultivated spirit of irresponsibility and excessive self-confidence both in himself and among his audience. In addition, homo socialisticus did not tolerate diverging opinions and for him the parade-style abidance by the communist dogmas was much more important than truth. So, his actions appeared to be rational, but his biggest problems stemmed from the fact that the fundamentals of his rationality consisted of actually irrational principles.

Hence, counterproductive phenomena, like the misappropriation of the all-people's property and the "Modern Prodigality", i.e. investments in "prestigious" economic projects without taking into account the existing national comparative advantages, became wide-

spread in Bulgaria. Besides, as some semi-secret sociological studies in Bulgaria revealed, the incentives for participation in the economic activities in the country were significantly eroded. Bulgarians felt alienated from their jobs and about 1/3 of the interviewed employees admitted that they had deliberately reduced their work effort even below the bare minimum for their jobs. The productivity of engineers and the other technical specialists in Bulgaria also stagnated and in 1986 it was four to five times lower than the productivity of their colleagues in the West.

In general, the established cultural norms in totalitarian Bulgaria in 1986 reinforced exclusively the relations of hierarchical subordination. Those cultural norms, however, were also conducive to a low level of professionalism, indifferent labor force, lack of effective co-operation, low degree of correspondence between personal and group interests, and irrational economic behavior. In other words, in 1986 there was a low level of consistency between the behavioral requirements of the prevailing economic institutions and the established cultural norms in Bulgaria.

5. "Ideological and political influence on economic institutions".

The economic system of totalitarian Bulgaria was essentially built under the strict control of the communist authorities. Since their economic policies were pronouncedly formulated with account

to the Marxist-Leninist ideology, many purely dogmatic concepts were, with more or less negative results, put in actual practice in the country over the years. So, the Bulgarian economy became a subject of endless ideologically and politically motivated experiments, which changed the structure, but did not alter the communist-type content of the established economic institutions.

For instance, the reorganizations of the national management structures in agriculture were more than 20, and in industry and construction such large-scale changes were over 15 for the last 45 years. Despite those numerous reshuffles, the essence of the economic management in Bulgaria remained exclusively dominated by the Marxist-Leninist fallacies.

Note-worthy, the Bulgarian centrally-planning system preserved its authoritarian character no matter what kind of widely-advertized changes were made in its structure. The State Committee for Planning was really dissolved in 1985, but its functions taken by the State Planning Commission which, in its turn, was abolished in 1986 with planning activity being assigned to the newly formed Commission for Economic and Social Policies Development. The scope and directive power of the central plan did not, however, diminish at all. In fact, it had eventually to include not only the material, financial, manpower and foreign-exchange balances, but also the balances of technological links. So, along with the economic indicators, the central plan was also supposed to show the techno-scientific and technological developments, on the basis of which those indicators could materialize. For this reason even the

name of the plan, which hitherto had been Unified State Plan for Socio-Economic Development, was changed in 1986 to Unified State Plan for Techno-Scientific and Socio-Economic Development.

In full accordance with its previous economic policies, the Bulgarian government tried to introduce in 1986 the so-called Three-Tier Economic Model, which was advertized as the latest achievement of the Marxist-Leninist economic thought in Bulgaria. The firm, understood as an economic entity which might consist of one or more factories, was recognized as "the basic economic unit" that supposedly was fully responsible for its own management decisions and for its own accounting.

The second tier of the national economic structure consisted of the so-called economic corporations and economic combines. An economic corporation comprised a number of industrial enterprises, commercial banks, as well as organizations for research and development grouped around related products or technologies. Its basic objective was, supposedly, to co-ordinate the utilization of resources and technological potential of its members. An economic combine was, in particular, created where the member enterprises had close vertical production links.

The third tier of the national economic structure was formed by larger groupings called associations. Those were established as big intersectoral complexes of a number of economic corporations and/or individual firms. Their main task was to draft a unified technological, investment and marketing policy and to organize certain activities of common interest to their members including,

for example, trading and service at home and abroad.

Naturally, the introduction of the Tree-Tier Economic Model did not mean a break with the former ideologically and politically motivated economic practices in the country. Bulgarian government continued to devote a substantial portion, amounting to 20-25% of the national income, of central expenditures to subsidize inefficient companies. The tendency for the state budget to run large deficits (usually covered by printing new money) was subsequently preserved. So, the inflationary pressure of unrealized (and in fact unrealizable) spending power continued to grow. In fact, the "inflationary overhang" in the form of unspent money in the hands of population reached 26.7 billion levs at the end of 1986.

The so-called "all-people's property" continued to be considered "the ultimate basis of socialist production". It remained divided among a limited number of state administrative units (corporations, combines and associations). This way, the all-people's property actually became a combination of titles of ownership. Those titles of ownership, in turn, strictly delineated different economic interests and provided the economic basis for the existence of the monstrous monopoly organizations in Bulgaria. Furthermore, those titles, in combination with the relations of subordination within the framework of the centralized planning and the rigid schemes for highly-bureaucratic distribution of resources, gave birth to powerful redistribution processes, which drastically deformed all economic proportions in the country.

The theory of the "full employment" was still considered the highest achievement of socialism. Hence the aspiration to maintain full employment at any cost. In economic terms, that meant inefficient production due to overemployment and inflating of administrative personnel, no freedom in determining remuneration, and the existence of an irrational system of wages which discredited skilled labor. Besides, full employment destroyed the motivation to work diligently and limited the freedom to choose an occupation.

The policies of the Bulgarian government in the economic sphere continued to be based on dogmatic ideological concepts, like the "classical" Marxist assertion that the production of means of production for the manufacture of means of production should always outpace the production of means of production for the fabrication of consumer goods. Irrespective of the Bulgarian comparative advantage -- resource endowments, technological potential, etc. -- top priority was, hence, given to the development of the so-called heavy industry: engineering of conventional industrial machines, metallurgy, and production of basic chemicals.

Following the formulated by Marx "objective pattern towards increasing concentration and centralization of production" the communist authorities in Bulgaria kept on favoring large-scale economic organizations and, respectively, being stoutly opposed to small-scale economic units. The development of the so-called "multiplication approach" eventually marked the highest point of the communist economic delusions -- the state monopolism was

proclaimed to be capable of producing rapid economic growth due to the increasing economies of scale and scope. Small-scale economic units were, in turn, denounced as "unproductive remnants of capitalism".

As a result, a lot of resources were blocked in a few large-scale conventional-technology projects, like the huge machine-tool plant near Radomir (Western Bulgaria) which failed to produce output of acceptable quality in spite of the substantial (more than \$1.5 billion) investments. At the same time, branches of the Bulgarian economy, like agriculture, food industry, and textiles, which could have generated a lot of hard-currency exports and/or raised the standard of living in Bulgaria, were largely ignored in 1986.

"Progressive socialization" of agriculture -- another detrimental Marxist ideological fallacy -- continued to be promoted and observed as a guiding principle of the national economic management by the Bulgarian government. Private ownership in agriculture was effectively discouraged and the remaining private farms were increasingly displaced by socialist agricultural organizations. This way, productive small-scale private farms disappeared in Bulgaria, giving up their place to the so-called Co-operative Labor Agricultural Communities, and, subsequently, to the Agro-Industrial Complexes. The link between farmers and land became slimmer and slimmer, while bureaucratization and centralization of agriculture took monstrous proportions.

The principle of the "total control through money", i.e. the

comprehensive control over all financial activities of all national economic units in Bulgaria, continued to be applied very actively too. The Bulgarian State Bank used its privileged position of the only channel for the movement of financial funds and, in fact, not only controlled company operations, but also enforced its opinion on whether a specific activity should be undertaken or not. Essentially, that used to be the main function of the Bulgarian State Bank. So, the central bank remained an administratively-controlling body which was, by and large, alien to the immediate concerns of Bulgarian companies. The latter were actually deprived of independent financial decision-making and they still had to channel portions of their revenues into strictly defined funds. Statutory acts restricted companies from using money from one fund for the purposes that were supposed to be covered by another fund. So, the carrying out of "the total control through money" resulted in a lack of internal convertibility -- companies were not allowed to use independently their funds which were deposited with the Bulgarian State Bank and it was practically impossible to convert money from one account to another or to withdraw funds from the deposits without first overcoming numerous formalities, like obtaining signatures, complying with various regulations and circular letters, etc. That was an eloquent proof that the essence of the economic management in Bulgaria remained virtually unchanged even after the introduction of the Three-Tier Economic Model.

The Marxist-Leninist fallacy that property was not a legitimate source of income also retained its appeal to economic

policy makers in Bulgaria. As a result, the system of financial regulators in the country remained highly-deficient. Economic instruments, like credit and interest continued to be used only as labels and were deprived of their actual meaning. In fact, the central bank took advantage of those regulators as if only to obstruct the operation of individual economic units. Good companies were forced to operate almost exclusively with their own funds, while unproductive companies were given huge bank loans. The rule that with borrowed money companies could expand faster and make more profits was absolutely invalid in Bulgaria. The basic interest rate was kept artificially low (after all, property was not a source of income) and that quite naturally led to an indiscriminate credit expansion. Hundreds of unprofitable companies were kept working through low-interest loans. Billions of levs stayed frozen in unfinished construction of industrial capacity.

The low interest rate of company deposits had also another dangerous aspect. Since the capital allowances for purchasing new equipment by companies were kept in the Expansion and Technical Renovation Fund (ETR), at a 1% interest rate that fund was actually constantly devalued (because annual inflation rates exceeded considerably 1%). So, companies used to be institutionally impeded to modernize their production lines.

The implementation of the dogmatic idea that taxes were largely unimportant, as far as production efficiency was concerned, led to sustained distortions of taxation in Bulgaria. Economic regulations on taxes were not applied consistently and they were

often modified by subnormative acts of different government bodies. In fact, the tax on profit was differentiated for various companies and that inevitably entailed administrative arbitrariness. Since the beginning of 1986, nineteen most profitable companies were required to pay excessive profit taxes at the rate of 65%, while the profits of the most inefficient companies in the country were taxed at a reduced rate of 20%. The so-called "contributory payments" from company profits to the state budget were also individually established as absolute sums which had to be paid by all means, irrespective of the actual profits. Those quasi-taxes were actually another proof that taxation in Bulgaria was subjected to a heavy ideological and political influence. Under such conditions, firms tried to take advantage of possible tax concessions, given the ambiguity and mostly arbitrary interpretation of tax regulations. That's why, companies often misinformed the state authorities in order to gain privileges over other local economic units.

The Bulgarian price system remained also distorted because the command-style administrative influences on economic institutions persisted in the country. Firstly, the general price level was still mostly disassociated from the requirements of the law of the quantity of money in circulation, i.e. prices in totalitarian Bulgaria were unrelated to the money supply in circulation, quantity of offered goods and velocity of money circulation. Secondly, there were disproportions among the prices within one market sector. For instance, in 1986 the ratio between

the price of labor of a bus driver and a qualified surgeon in Bulgaria was 7:6 while that ratio was 1:10 in the industrially-developed countries. Thirdly, there was a complete discrepancy among the price levels of the different market sectors. For instance, between consumer prices and interest rates, or between the price of capital and the price of labor.

The Bulgarian foreign-economic relations continued to be motivated by pronouncedly ideological and political considerations. For instance, about 80 per cent of Bulgaria's trade in 1986 was conducted with the other CMEA countries. The former Soviet Union was overwhelmingly the most important economic partner of Bulgaria in terms of the trade turnover. Besides, as far as the number of the bilateral intra-CMEA cooperation agreements was concerned, Bulgaria had with the former Soviet Union more such agreements (25) than all the other CMEA member-countries had together (24). This way, the country became increasingly dependent on foreign imports of raw materials and energy from the then U.S.S.R. Respectively, Bulgarian exports were aimed predominantly towards the former Soviet market and the markets of the other CMEA member-countries. Eventually, the Bulgarian economy became more and more isolated and its competitiveness stagnated at a very low level.

Besides the artificial pseudo-economic relations with the other member-countries of the CMEA, Bulgaria had very unbalanced relations with the rest of the world -- the purchases of products from industrially-developed countries grew together with the size of the Bulgarian foreign debt, while Bulgarian sales (mostly on

credit) to several, in practice, insolvent Third World countries like Libya and Iraq increased without being matched by counter flows of goods, let alone paid for.

At the same time, Bulgaria's economic policy makers remained determined not to back down from their large-scale investment plans. Subsequently, Bulgaria's trade deficit with non-CMEA countries became sizable (\$430 million) in 1986 before going out of control in the following years (to reach 1.5 billion in 1989, the largest trade deficit the country ever recorded). The resulting current account deficit was financed mainly through bank to bank trade financing, especially through drawing down the existing lines of credit, since borrowing money from western governments was considered politically inappropriate by the Bulgarian authorities. Bulgaria's gross foreign debt thus rose from about \$2.3 billion at the end of 1984 to some \$7.2 billion at the end of 1986.

Eventually, the consequences of detrimental ideological and political influence on economic institutions in totalitarian Bulgaria can be divided tentatively into three groups: general economic disequilibrium (micro and macroeconomic budgetary imbalances, chronic mismatch between supply and demand, external imbalance, etc.) and the resulting actual or suppressed inflationary pressure; the serious systemic deficiencies of the traditional command central planning (continued reliance on central directives in the absence of clear market signals, such as free prices, and the lack of private enterprise); and, last but not least, the structural distortions -- inefficient industrial plants,

technological obsolescence and the lack of competitiveness of Bulgarian exports.

The monopoly of the state over economy led to total subordination of producers to the state bureaucracy, lack of productive entrepreneurship, and increasing inconsistency between economic logic and functioning of the Bulgarian economy.

As a result, there was no objective criterion for assessing economic performance in Bulgaria and the domestic industrial output was, quite naturally, of relatively low quality, while, at the same time, consuming 1.5 to 2 times more energy and other inputs per unit than the output, produced by the industrially-advanced economies.

APPENDIX No 2

INSTITUTIONAL STRUCTURE OF BULGARIA IN 1991

1. Introduction.

In 1991 Bulgaria was a country in a state of radical social transformation. The old totalitarian structures were mostly disintegrated although some communist-type social phenomena still persisted. Note-worthy, the ideological monopoly of the Marxism-Leninism has collapsed and the political monopoly of the Communist Party was effectively challenged by a diverse array of non-communist political coalitions and parties. The monopoly of the state over the Bulgarian economy still existed, but the once omnipotent state sector was gradually losing ground to the emerging private sector of the local economy.

2. "Dissemination of rational public knowledge".

The collapse of the communist ideology in Bulgaria has resulted in a rapid change in the system of personal values. Marxist-Leninist dogmas, like class and party discipline, selflessness in the name of the "bright future", "socialist

realism", and indiscriminate rejection of everything that is alien to socialism have completely lost their significance as criteria for assessment of personal behavior. Social consciousness has become more and more utilitarian and people have shown a pronounced desire to learn things that may eventually improve their living.

In addition, the dissemination of rational knowledge in Bulgaria is no longer a centrally-administered activity. To be sure, research institutes, educational establishments and information agencies are still very important institutions for diffusion of rational knowledge in the country, but their operation is now mostly free from the influence of the central authorities. Besides, the improvement of the indigenous knowledge base in Bulgaria is facilitated by the spontaneous participation of large groups of people in diverse forms of learning (some of which take place outside the traditional organizations in the field).

The work of research institutes is no longer monitored by the government and scholastic activity is essentially liberated from administrative arbitrariness. The system of the Bulgarian Academy of Sciences is effectively disintegrated and individual research departments are allowed to establish freely horizontal relations with scholars and institutes both inside and outside Bulgaria. This way, the flow of valuable information to and inside the country is greatly facilitated.

Unfortunately, the elimination of the centralized control over the activities of research institutes and broad democratic changes in Bulgaria are also accompanied by a sharp decrease in the state

funds that are allocated for the support of basic research as well as by a large-scale emigration of specialists (mostly young technical specialists) due to the economic problems in the country. As a result, the research base in Bulgaria is dangerously weakened. On the other hand, there is a substantial transfer of scholars and engineers from basic research to applied research and development. Thus, Bulgarian research institutes become increasingly oriented toward working on practical issues and the links among the phases of the innovation process in the country are improved.

Under the new conditions in Bulgaria social sciences are, in a large measure, liberated from the straitjacket of the Marxism-Leninism. Empirical studies are no longer considered redundant and diversity of theoretical concepts is encouraged. Furthermore, social science subjects, like microeconomics, macroeconomics and management studies become more and more popular as the Bulgarian economy is progressively transformed on the market principles. This way, many communist-type barriers to the dissemination of rational public knowledge are effectively eliminated and the achievement of high-level professionalism is stimulated in today's Bulgaria.

Education in that country is, however, still heavily influenced by the legacy of the totalitarian regime. Curriculum of the local schools continues to be full of technical subjects, while the studying of practical social science disciplines remains largely neglected. Besides, teaching in Bulgaria continues to be dominated by authoritarian approaches which do not tolerate personal opinions that diverge from the view point of the tutor.

On the other hand, Bulgarian students are no longer indoctrinated with Marxist-Leninist fallacies. So, there are some positive signs which indicate that the transformation of the educational system on modern principles is actually under way in the country.

Bulgarian information agencies, including The State Committee for Radio and Television Broadcasting and The Bulgarian Telegraph Agency, are now given a high degree of autonomy from the central authorities. Hence, they are able to offer a wide range of diverse educational programs to the public. Bulgarian information agencies are also very helpful as far as the obtaining of timely knowledge on important current events and establishing of business contacts are concerned. In brief, the dissemination of rational public knowledge in Bulgaria, although some institutional impediments to the this process still persist, is considerably easier today than it used to be just five years ago.

3. "The nature of the prevailing social and political institutions".

The Bulgarian socio-cultural system is at present in a process of rapid disintegration. The complete coalescence between social and political institutions, which used to be one of the most pronounced characteristics of the totalitarian system in Bulgaria, is now replaced by social and political forms, which exist largely disassociated from each other within an increasingly pluralistic

socio-cultural system. The lack of tolerance, which has been a specific feature of the Bulgarian culture, makes processes of constructive reintegration extremely difficult in that country. That's why, emerging social and political alliances are still very fragile and not very effective.

3.1. Social Institutions.

After 45 years of latent existence under the smothering communist dictatorship, different social groups in Bulgaria have shown signs of growing mistrust to formal social institutions as well as a drive towards spontaneous self-identification.

One sociological study has revealed that only 19% of the Bulgarians believe that social disputes should be confined to the established formal institutions, like the Parliament. Six per cent firmly want social action outside of the formal system, and 75% insist on a combination of both formal and informal settlement of the social problems of the country. Readiness to get personally involved in enforcing decisions through street action is declared by 67% of the polled (Nikolov, 1990). Consequently, controversial groups, like "Citizen Initiative" and "Movement in the Name of Truth", have grown in importance in the Bulgarian society. Hence, the country has been shaken by a lot of violent strikes, street protests, and illegal occupations.

The increasing fragmentation of the Bulgarian society has led

to almost complete disassociation of the local formal social institutions from each other. That's why, the Presidency (which has replaced the State Council), the Council of Ministers, and the Parliament function now, to a very high degree, in isolation. Besides, the staff of these institutions is composed of people with vastly diverse social and political affiliations. Thus, the cooperation even within the established formal social institutions becomes very problematic due to the legacy of the totalitarian regime reinforced by certain characteristic features of the Bulgarian national psychology.

Moreover, processes of spontaneous self-identification by large social groups have resulted in disbalance among existing social interests since certain categories of group interest have been granted disproportionately bigger concessions by the state authorities. Incidentally, these have been the interests of the social groups, which have been most brutal in pressing the government. Hence, Bulgarians have actively adopted the tactics of achieving desirable settlement of their social disputes through the use of brutal force and/or intimidation. Consequently, there has been very little negotiating, and final decisions to settle the erupted social conflicts have been taken almost spontaneously and without taking into account any objective criterion. In other words, social processes and, respectively, social institutions in Bulgaria are now closer to anarchy than to functioning democracy.

3.2. Political Institutions.

As communist regimes fell all over East Europe, the Bulgarian Communist Party, which had accumulated a substantial political experience for over a century, banked on flexibility to survive. Rather than take the Chinese way and crush with tanks the increasingly frequent and ever bigger mass demonstrations against the totalitarian rule, the communist leadership staged a palace coup, ridding the country of T. Zhivkov. Then the formerly all-powerful Communist Party undertook a well-organized retreat, skillfully giving ground to the opposition forces in order to prevent a large-scale popular upheaval. The younger and more dynamic generation was allowed to take an active part in the party's leadership. Subsequently, the Communist Party has managed to avoid a large-scale disintegration among its members. With the exception of the people, who have joined the small Alternative Socialist Party (which grew out of the Alternative Socialist Union), the former Communist Party has not suffered any other significant organizational losses.

Note-worthy, the most pronounced characteristic of the social behavior of the Communist Party in Bulgaria at present is not its wholehearted (and brutal) support of the Marxist-Leninist ideology, but its adaptiveness which has eventually been aimed at securing its political survival as well as protecting the interests of the top leadership of this party. That's why, without much hesitation in April of 1990 Bulgarian communists changed the name of their

party, substituting the word "socialist" for the word "communist" and adopted a new, essentially, social-democratic political platform, thus breaking fundamentally with the Leninist interpretation of Marxism. In order to achieve success in the parliamentary elections, the renamed communists dropped even some (actually, almost all) of the basic principles of the orthodox Marxism and proclaimed commitment to the Bulgarian national values. They appealed for protecting the income of the retired and for national reconciliation, this way taking advantage of the apprehensions of several large electorate groups: the retired and soon-to-retire, the minorities (mostly the Turks), the people who feared radical social changes (actually, the weakest people in the society), etc. Essentially, those interest groups comprised about 60% of all Bulgarian citizens, who were old enough to be given the right to vote. On the other hand, the Socialist (Communist) Party tried implicitly to protect personal interests of its "most distinguished" (and wealthy) members: the so-called "Active Fighters", most of whom were already of old age.

Thus, promising a smooth transition in the face of the realistic but not very popular program for "shock therapy" (offered by the Union of Democratic Forces) the Socialist Party won the parliamentary elections with 51% of the votes, followed by the Union of Democratic Forces (36%), the Movement for Rights and Freedom (8%), and the Bulgarian Agrarian People's Union (4%). Three other parties (the Fatherland Front, the Fatherland Party of Labor, and the Non-Marxist Social Democratic Party) managed to enter a

single deputy each. The narrow victory consolidated further the organizational stability of the Socialist Party -- the reformers were afraid to leave and run the risk of landing in political wilderness, while the conservatives were loath to throw them out so as not to reveal publicly their own hard communist character. To be sure, it is particularly important to emphasize that the parliamentary elections in Bulgaria were held under the control of a communist government. Note-worthy, the Bulgarian parliamentarism has had a very indifferent record -- with very few exceptions, the political party in power wins the elections. Since the liberation from the Turkish occupation (1878), ruling parties in Bulgaria have lost parliamentary elections only on three occasions: in 1880, 1919, and 1931. Even today the tendency of public approval increases with the rank and hierarchy. One recent sociological study has shown that, despite the dismal condition of the Bulgarian economy and the turmoil in the Bulgarian political system, the politicians with the highest rate of public approval in Bulgaria occupy the top five positions in the state hierarchy -- the President, the Vice President, the Chairman of the National Assembly, the Prime Minister, and the Minister of Foreign Affairs (Slavov, Dimitrova, and Stepanyan, 1991). In other words, there is a deep-seated instinct to obey superior force, good or evil, in Bulgaria.

The Bulgarian Agrarian People's Union plays now the role of the political "center" in Bulgaria. This an old political organization with a turbulent history. Its initial name was the

Bulgarian Agrarian Party. With the rise of A.Stamboliiski in the party's leadership about eighty years ago, the agrarians turned into a modern political organization. Stamboliiski's estate theory became the party's ideology and, subsequently, the basis of the party's participation in Bulgarian politics. That theory divided the population into rural and urban estates. The Agrarian Party was supposed to defend the interests of the countryside, which Stamboliiski believed was made subservient to the town. The rural estate was seen as the main producer of material wealth, while the urban estate presumably parasitized on it. In Bulgaria of the early 1900s, where more than 80% of the population lived in the countryside, those ideas fell in good soil. Capitalizing on the support of a vast rural electorate, the Agrarian Party grew in popularity in Bulgaria. Internal power struggles as well as external impact of other political forces (mostly the Communist Party after 1945) led however to a split of the party into two main factions -- the right wing (headed by Nikola Petkov), and the pro-communist left wing (predecessor of the today's Agrarian People's Union). The former faction was against the communist domination and the adoption of the Stalinist model of government in Bulgaria. They proclaimed the so-called "third path" for the development of the Bulgarian society. Today this concept serves as an ideological basis of the Nikola Petkov Agrarian Union as well as of the becoming more and more traditional formerly pro-communist Agrarian People's Union.

The role of the political "right" in Bulgaria is played at

present by the Union of Democratic Forces, which was created in 1989. In the beginning, the Union was dominated by the post-classic political organizations, like the Club for Openness and Democracy, Ecoglasnost, Podkrepa (the Bulgarian version of the Polish Solidarnost), and the Green Party (a result of a split inside Ecoglasnost). Those post-classic political entities gave the "velvet revolution" in Bulgaria its specific feel. Subsequently, the parties of the classic mode, like the Social Democratic Party and Nikola Petkov Agrarian Union move to the front of the political structure of the Union. Those political parties gradually emerged as a powerful "left" center within it. The "right" inside the Union also began to consolidate around the Democratic Party and the Radical Democratic Party.

The creation of the "left" center within the Union of Democratic Forces led by the Social Democratic Party and Nikola Petkov Agrarian Union has not at all been accidental. These organizations are moderate leftist parties with close political platforms. Both of them stand for a strong all-people's state, which controls the distribution of the national product in accordance with the universal egalitarian principles. In addition, social democrats as well as Nikola Petkov agrarians claim that small entrepreneurs must be granted exclusive privileges by the central authorities and both political parties consider that different forms of ownership should be given an equal chance to show their advantages or disadvantages with account to their specific situations. Both political parties believe that disputes

involving large social groups have always to be concrete and final settlement of these disputes reached using mostly utilitarian criteria for assessment.

The Democratic Party and the Radical Democratic Party stand, on the other hand, for the unrestricted liberty. The independence of the individual from the central authorities is the cornerstone of the ideology of these parties. Moreover, Bulgarian democrats believe that people should be equal only with regard to the provisions of the formal law. That is why, private property is considered to be the only one worthy of actual existence. Traditionally, the Democratic Party and the Radical Democratic Party have been the political organizations of the Bulgarian intellectual and business elite. At present, however, there is a tendency for these parties to appeal to all social strata, which the totalitarian regime used to push away from the former socio-political center/ the communist nomenclatura. This way, both the Democratic Party and the Radical Democratic Party tend gradually to become political organizations of "all enterprising individuals in Bulgaria" (Savov, 1991).

So, the Union of Democratic Forces is a young political coalition composed of diverse political entities, which are kept together almost exclusively by their desire to dismantle completely the remnants of the totalitarian regime in Bulgaria. Naturally, the Union still lacks sufficient political experience. Thus, it failed to initiate successful pre-empting political maneuvers during the election campaign in June, 1990. Later, the Union tripped over the

issue of reaching a social compromise in Bulgaria. In fact, individual members of the Union of Democratic Forces agreed to take part in a coalition government together with the communists, while the Union, as a whole, officially declared that it would not cooperate with the Socialist (Communist) Party. Besides, the Union has failed to present its ideas to the public in a manner that is consistent with the requirements of political dialogue in the end of the 20th century -- it could not make a difference between tolerant dispute and total confrontation, or between several well-calculated compromises and large-scale cooperation.

In addition to the Union of Democratic Forces, several other non-communist parties have appeared in Bulgaria. The biggest of them is the Movement for Rights and Freedom, in effect, a party of the ethnic Turkish community. A significant nationalist fringe, headed by the Fatherland Labor Party, has consolidated, in turn, out of anti-Turkish sentiments. Parties like the Bulgarian National Radical Party and the Bulgarian National Democratic Party have also arisen out of the ferment of the increasingly evident nationalism. In addition, a Christian Democratic fringe emerged, encompassing several small political formations. A loose federation of monarchists has, in its turn, intermingled with the nationalists and christian-democrats. Furthermore, the Bulgarian Business Block -- a self-avowed "right-wing bourgeois party" has been formed on the basis of the associations of private entrepreneurs.

In brief, the pluralism of social institutions in Bulgaria has been accompanied by a pluralism of political institutions in

the country. There have been, indeed, some signs of reintegration within the Bulgarian political system mostly as a result of the consolidation among the ranks of, respectively, communists and non-communists as well as on the basis of nationality. In general, however, political fragmentation in the country remains tremendous.

Against this background, the agreement on "guaranteeing the peaceful transition to a democratic society" which has recently been concluded by all the political parties that are represented in the Bulgarian parliament together with the Confederation of Independent Trade Unions and the Confederation of Labor Podkrepa can be evaluated as a very important (although mostly symbolic) step towards the reintegration of social and political institutions in Bulgaria on democratic principles. All parties to the agreement have confirmed that they should be unconditionally guided in their activity by the following fundamental concepts:

- acceptance of political plurality as the cornerstone of a democratic society in the country;
- participation of the political forces in the exercise of the state power in accordance with the will of the electorate, which is recognized as "the only source of political power";
- respect for the rights and freedoms of all Bulgarians regardless of race, sex, and religion;
- establishment of safeguards against any form of civil violence.

Whatever contradictions, which might arise in the course of peaceful transition to a democratic society, are supposed to be

resolved by lawful means through the institutions of parliamentary democracy. The main goal of the so-called National Government for Peaceful Transition to Democracy is, hence, considered to be the creation of an appropriate institutional basis of the market economy and a democratic state structure for overcoming the legacy of the totalitarian system.

The parties to the agreement have also pledged to abide by a self-imposed moratorium on mass political events and call on all other political and public organizations to do likewise. Any violent expressions of public protest, like occupations of public buildings, blocking of public thoroughfares and wildcat strikes are explicitly declared to be against the law.

4. "Consistency between the behavioral requirements of the prevailing economic institutions and the established cultural norms".

The collapse of the centralized planning in Bulgaria has led to a situation when the communist-type economic institutions have been rapidly disintegrating, while the economic institutions that are typical of the market economy have not consolidated yet.

In order to succeed, the measures of the economic reform in Bulgaria have to be implemented as a package, which should provide for privatization of state and municipal companies, establishment of small privately-owned enterprises, dismantlement of the giant

state-owned economic units, tax reform aimed at motivating and not obstructing companies, free sales of real estate and industrial products to individuals, and liberalization of prices.

In fact, however, the economic reform in that country has halted over most of those issues. Note-worthy, prices have been liberalized, while the privatization and demonopolization of state and municipal companies are still at the embryonic stage. So, it is becoming increasingly obvious that the further progress in the transformation of the Bulgarian economy on market principles is essentially dependent on the conscientious efforts of the local public to dismantle the still existing remnants of the communist-type economic institutions as well as on the entrepreneurship of a certain number of Bulgarians which may eventually boost a healthy competition in the country.

On the other hand, for more than four decades the Bulgarian culture has been influenced by the communist-type behavioral norms, which used to be actively enforced by the central authorities. Consequently, the systematic imposing of pseudo-behavioral patterns, like class and party discipline, formal unanimity, democratic centralism, and indiscriminate adherence to the Marxism-Leninism has resulted in the emergence of homo socialisticus.

To be sure, the radical changes which have been taking place in Bulgaria since November of 1989 has essentially eliminated the communist-style system of economic management, i.e. the institutional setting in which homo socialisticus was most effective. This kind of pseudo-personality, although fictitiously

changed, is however still alive in that country.

At present, he has put on a new convenient social mask -- that of the entrepreneurial businessman who is no longer interested in politics -- and he has kept on pretending to be an assiduous and spiritually mature individual. In reality, homo socialisticus is deeply troubled. The painful recognition of the fact that everything he has dreamed of and worked for appears now to be just an illusion has proved to be an unbearable intellectual burden for him. For homo socialisticus the end of the old regime has also posed the difficult issue of radically changing his life-style and learning completely new things. Quite naturally, this is a tremendous challenge to the abilities of a person who has lost his individuality and aptitude to think constructively without looking for reference to certain prescribed stereotypes.

Unfortunately, most of those problems have also been characteristic of the Bulgarians, who have more or less managed to keep clear of the homo socialisticus affection. The break-down of the totalitarian system has actually left them loaded with previously unknown amount of responsibilities for their private lives. That's why, many Bulgarians have felt, by and large, intellectually overburdened and, hence, socially insecure. Individuals, depersonalized by the totalitarian system, have lacked creative outlook which could help them find a way out of their spiritual confusion.

The damages of the subdued and latent intellectual existence for more than four decades have become very obvious now when the

significantly in the future, although it has only slightly increased since 1986.

5. "Ideological and political influence on economic institutions".

The most pronounced feature of the system of economic institutions in Bulgaria at present is that this system is in a state of turbulent transition from a rigid centralized planning to a complex economic formation built on market principles.

The immediate institutional environment in which that comprehensive process takes place is essentially characterized by the existence of strong socio-cultural traditions of compelling ideological and political influence on the system of economic institutions as well as of too many dysfunctional remnants of the communist-style economic management. Thus, business activity in Bulgaria has been impeded by, firstly, the continuing existence of the structures of the former administration characterized by excessive bureaucracy; secondly, the absence of a normally developed market with its three major spheres -- capital, money, and labor market (that has led to severe deformation of prices); thirdly, there hasn't been a normal banking system in Bulgaria; fourthly, the elements of the business infrastructure, and especially services and the communication system, have been, to a large degree, underdeveloped; fifthly, there are lack of balance

processes of comprehensive economic change in Bulgaria have increased in terms of both speed and scope. The most conspicuous outcome of these developments has been the cognitive inability of people to make rational decisions in complex situations and, consequently, to act autonomously. Besides, the views of most Bulgarians have been pronouncedly egalitarian. As one public opinion poll has revealed 27% of the people in this country would accept a deterioration of the living standards if "everybody suffers equally " (Tsvetkov, 1990). Asked whether there should be rich or poor, 48% have said "no" and only 31% have said "yes".

So, the established cultural norms presently in Bulgaria can hardly stimulate an active and conscientious public initiative to dismantle the still existing remnants of the communist-type economic institutions. There are some signs, however, that this situation is eventually bound to change.

As the Bulgarian socio-cultural system is gradually opening to the outside world and as the barriers to the dissemination of rational knowledge within the country become weaker and weaker, the Bulgarian culture will inevitably alter on principles which are characteristic of the modern socio-cultural systems. Noteworthy, some traditions of entrepreneurship from the time of the pre-totalitarian Bulgaria, when most people were small holders and artisans, have proved to be still alive, as one recent sociological study has showed. That's why, the consistency between the behavioral requirements of the prevailing economic institutions and the current cultural norms in Bulgaria can be expected to grow

between supply and demand, severe disruption of the relationship between commodity reserves and the monetary mass in circulation, low efficiency and labor productivity, reduced interest in the introduction of new technologies, a disintegrated financial system, low motivation of labor force, and structural backwardness.

On the other hand, it should be emphasized that the collapse of the ideological monopoly of the Marxism-Leninism and the rapid disintegration of the political monopoly of the Communist Party have led to substantial changes in the Bulgarian socio-cultural system, which has in general become less ideological and politicized.

All these factors have eventually affected the content, time-schedule and direction of the economic transition in Bulgaria. Essentially, the idea of the Program for Economic Reforms in Bulgaria is, firstly, to balance the economy and, above all, to slash domestic demand (i.e. investment and personal consumption) to match supply of goods and services in the country through liberalization of prices, increase of the interest rates, and introduction of a floating (according to the prevailing market conditions) rate of exchange of the Bulgarian lev; secondly, to introduce market mechanisms along with economic restructuring mostly through demonopolization and privatization; and thirdly, to normalize foreign economic relations and to restore the country's credit standing. In addition, the Program for Economic Reforms in Bulgaria has been complemented and further extended through the Program for Demonopolization, the Program for Privatization, and

the Regulations on Activity of Banks.

The Program for Demonopolization of the Bulgarian economy provides for several interrelated thrusts. Firstly, the administrative monopoly has to be taken down through a special decree or government regulation. Secondly, certain incentives have to be provided for the establishment of firms, which would compete with the state monopolists. Thirdly, the functions of the existing monopoly organizations have to be deregulated (i.e. allowed to include untraditional branches of the economy) in order that some of the state monopolists would start competing against each other. Fourthly, the government antimonopoly regulation has to focus on unfair and anticompetitive business practices, like agreements for division of the market, price fixing, or "swerving" of production supplies. Fifthly, the Bulgarian economy has to be open for foreign competition.

The Program for Privatization includes comprehensive provisions for sale of state-owned economic units by public auction or issue of shares. While the auctions and purchase of shares are supposed to be open to the general public, other things being equal, the program has given the personnel of the so-called "primary economic units", like factories, plants, and stand-alone workshops preference over other potential buyers. Besides, the respective employees can automatically receive a loan from the state at interest rate which is only a half of the current market rate and with repayments extended for over a period of up to 20 years. Part of the shares (but not less than 30%) has to be offered

for purchase by the highest bidders (irrespective of the nationality). The shares, which remain unpurchased by private individuals or companies, should officially be considered property of the respective companies. In exchange, these companies have to pay the market value of their unprivatized property plus all applicable taxes and interests to the state treasury. Unprivatized state-owned economic units would be transformed into joint-stock companies and become subject to general trade law. The current legislation has allowed each state and municipal company to sell out property worth up to ten million levs without clearing it with the Ministry of Industry and Trade and the Ministry of Finance.

The Regulations on Activity of Banks envisage, in the first place restructuring of the Bulgarian banking system, which should start playing the leading role for monetarizing the local economy through the use of money, specific incentives for money movement, and especially, through changes in the interest rates. The Bulgarian State Bank has, by and large, to remain as an emission bank, carrying out exclusively the functions typical of the central banks in the industrially-advanced countries. So, the Bulgarian State Bank should take an active part in the battle against inflation by regulating the creation of money and the volume of credits. In addition, the central bank should administratively be subordinated only to the National Assembly (and not to the Council of Ministers) because otherwise the temptation to solve some of the financial problems of the government partially through creation of new money would be great. The Bulgarian State Bank should also

continue to exercise, to a certain degree, control over the domestic economy, but it has to perform its functions mostly through economic instruments, like interest rates, rate of exchange, availability of credits, etc. The economic reforms provide further for financial service of companies as well as of general population to be transferred to commercial banks. These banks will be given the right to set up freely branches anywhere in the country and to enter into competition with other banks. Likewise, enterprises will be free to make their choice of banks for services and credits. The interest rates are to become the main criteria for financial decision making. Furthermore, the Regulations on Activity of Banks envisage the creation of a multibank system which has to be accompanied by the establishment of a mechanism for clearing settlement among the banks as well as of an interbank money market.

Note-worthy, the Program for Economic Reforms in Bulgaria has been adopted after lengthy consultations among the government, labor unions, business associations and political parties represented in the national parliament which has been a fundamentally new phenomenon in the Bulgarian institutional system. The participants in those consultations have also reached an agreement on several other related issues, such as the anticipated budget deficit for 1992, cutdowns of budgetary expenses, utilization of the financial funds proceeding from the privatization of state-owned property, etc. The government together with labor unions and business associations have also discussed the

scope, nature and timing of the measures to offset the likely temporary lowering of the standard of living of the population and they have drafted a social security scheme for protection of the unemployed. This scheme provides for a nine-month period of regressive compensation of unemployment (during the last six months it is the amount of the country's minimal monthly salary). The government has taken on its own initiative the responsibility to reconsider regularly the limitations to the level of minimum wages with due account to the current changes of the social minimum and with the approval of employers and labor unions. Labor unions and business associations have, in their turn, agreed not to take effective industrial action and to recommend to their members to settle all arising conflicts through negotiations.

Although generally productive, the nation-wide consultations have been very difficult and, to a certain degree, influenced by some ideological and political considerations that are associated with the specific institutional characteristics of the participants. For instance, the Bulgarian government has not managed to break completely with the former excessively bureaucratic style of economic management yet. Hence, the government policies toward the current economic reforms are characterized by adherence to some pre-established stereotypes, like the concept according to which the Bulgarian economy should exclusively be based on "the three whales" (tourism, food industry and agriculture). Quite interestingly, this idea is followed now by the Bulgarian authorities with the same devotion as the Marxist

concepts used to be implemented in the past. There is very little attention, consequently, paid to the development of certain high-technology industrial sectors in the country.

In addition, the excessive politicization of the major labor unions in Bulgaria, i.e. the Confederation of the Independent Trade Unions and the Confederation of Labor Podkrepa, has not been eliminated yet which is a big impediment to the achievement of constructive results during discussions involving their representatives. In fact, these labor unions are currently in an almost constant conflict with each other due to the differences in their political orientation and, as a result, they can not successfully play their major functions. Besides, the competition between the Confederation of the Independent Trade Unions and the Confederation of Labor Podkrepa could possibly lead to the launching of dysfunctional populist-type initiatives.

Furthermore, the business associations in Bulgaria are still very young, weak and inexperienced to be able to balance effectively the power of the government, labor unions, and the big political parties. The employers in Bulgaria have only recently joined forces -- The National Council of Employers has been established to become a coordinator of the actions of its participants: Union for Private Business Initiative, Bulgarian Union of Private Companies Vazrazhdane, National Union of Business Managers, Union of Production Co-operatives, and Bulgarian Chamber of Commerce and Industry (including the Club of Joint Ventures in Bulgaria). Several commissions have also been established as

affiliated organizational units to the Council on, respectively, relations with the central government, relations with the trade unions, relations with political parties, legislative initiatives, and international contacts. Those efforts are, however, largely insufficient to promote the interests of employers in a socio-cultural system where the institutions of the government, labor unions, and major political parties have gained steady positions reinforced by strong cultural traditions.

Moreover, the big political parties and coalitions of parties in Bulgaria have been in an acute struggle for political supremacy. They are partitioned by numerous cleavages on ideological and national basis reinforced by certain dysfunctional characteristics of the Bulgarian national psychology. But since political parties in that country have taken an extremely active part in the public debates on current social, political and economic problems, it hasn't been socially acceptable to exclude them from the nationwide discussions on the economic reforms. Hence, the respective consultations have been slowed down by the need to reach numerous compromises between conflicting political opinions. Eventually, certain ideological fallacies, like balancing the economy before the creation of functioning market mechanism or giving preference to the personnel of the "primary economic units" to buy state-owned property, have been included in the Program for Economic Reforms in Bulgaria.

The specific characteristics of the main institutional actors have had even more pronounced impact on the mode of implementation

of that program. Essentially, there is very little disagreement as far as the content and general direction of the economic transition are concerned. Two big diverging socio-political camps have, however, emerged on the issue of the time-schedule of the economic reforms. On one hand, there are the advocates of the "shock treatment" approach, and, on the other hand, there are the proponents of the more cautious "evolutionary" approach. More specifically, the "shock therapists" are keen to move ahead faster regardless of the inevitable high social costs of the transition. The palliative is that the pain is presumed to be relatively short. The proponents of the "evolutionary" approach, in turn, try to minimize the pain and perhaps spread it over a much longer period. The central belief of this school has been that market economics can be introduced gradually. At the same time, the old structures can be preserved while being made to operate under the more competitive conditions created by the promotion of private enterprise and free markets. The emphasis is on the building of new rather than on a wholesale annihilation of the old economic institutions.

Furthermore, the interplay among the concrete interests of the main institutional actors in Bulgaria has eventually led to certain disassociation between the implementation of the measures for balancing the economy (stage one of the program) and the implementation of the programs on economic restructuring (stage two of the reforms). Note-worthy, the liberalization of prices, increase in the interest rates and introduction of a floating

exchange rate of the Bulgarian lev have been overemphasized (and the potential of these measures has unduly been overestimated), while the restructuring of the domestic economy through demonopolization and privatization has essentially been blocked and its significance underestimated.

To be sure, it has been necessary to implement the measures of stage one of the program as a package. One of the reasons for raising prices and interest rates together is to provide incentive for companies which have hoarded goods (estimated at 6 billion levs) to put them to the market. Just gradual increase of prices is considered insufficient in that respect. Thus, the growing disintegration of the domestic market (due to the building of reserves by the consumers and awaiting on the part of the producers) is believed to be curbed. The policies of "expensive money" in combination with the introduction of a floating exchange rate of the Bulgarian lev have also been expected to reduce and screen capital investments. In fact, the so-called collateral construction (material reserves, uncompleted construction, general overhaul, etc) has been a significant problem in that country.

Consequently, since February 1, 1991 prices have been liberalized in Bulgaria and the exchange rate of the Bulgarian lev has been set free to fluctuate in accordance with the prevailing market conditions. As a result, the prices of many goods and services have skyrocketed: transport fares have increased almost 12-fold, meat and meat products up to 11-fold, butter and other dairy products up to 7-fold, electricity and central heating up to

5-fold, etc. The exchange rate of the local currency to the U.S. dollar has in turn dropped more than twice. The interest rates have also been liberalized, although only partially -- the local banks have been allowed to determine independently their interest rates within certain pre-established limits. The basic interest rate has been raised three times since the beginning of the reforms and has eventually reached 45%, while the average interest rate on corporate credits has become 47%. To induce savings, thereby soaking up the monetary overhang, the average interest rates on short term deposits have been increased to 4.5% on one month's deposits, 10.5% on three months' deposits, and 40% on one year's deposits. The average interest rate on housing mortgage has become 10%.

On the other hand, the liberalization of prices, increase in the interest rates and introduction of a floating exchange rate are supposed to be implemented in close coordination with the measures for restructuring of the Bulgarian economy. Some experts from the World Bank have even recommended that the economic restructuring should be carried out first in order to put in motion market mechanisms, and then use market mechanisms to balance the economy (Hinds, 1990). Unfortunately, the measures for demonopolization, privatization, creation of labor and capital markets, as well as on restoring the country's credit standing have remained largely unrealized in Bulgaria.

Due to the lack of constructive agreement among the representatives of the government, labor unions and big political

parties, and despite the active efforts of the National Council of Employers the demonopolization of the domestic economy has mostly encompassed agricultural production and food industry. But even in those sectors the former state associations, although renamed and slightly restructured, have actually kept their positions of monopolists. For instance, the Economic Union "Mlechna Promishlenost" has managed to retain its monopoly position in the dairy sector of the local food industry in spite of the fact that all of its production units have been given a formal independence. In reality, the former monopolist has just taken another name -- L.B. Bulgaricum -- and it still controls the operation of its former constituencies through a bunch of distribution and management contracts. So, supposedly independent production units (now firms) have effectively shared market information through L.B. Bulgaricum. Eventually, the local market has become neatly divided and prices of dairy products have skyrocketed. L.B. Bulgaricum does not, of course, continue to collect from its former production units compulsory financial contributions (as it did before), but the "new company" does charge its "clients" agent fees for its "services".

The privatization of the state-owned property has in turn been blocked because of the irreconcilable ideological and political differences among the members of the government which has mostly been staffed with representatives of the Socialist (the former Communist) Party and the Union of Democratic Forces. Subsequently, a moratorium on the privatization has been imposed by the Bulgarian

government in order, supposedly, to prevent the former nomenclatura from using its still strong administrative positions to buy cheaply state-owned property.

Moreover, the Program for Privatization which has been adopted together with the Program for Economic Reforms in Bulgaria is strongly challenged by an alternative program for privatization called "Equal Start Program". According to the "equal opportunity" program, the state-owned means of production have to be reverted to every Bulgarian citizen rather than go to any buyer. Technically that would be achieved by handing out everybody "investment cheques" each worth 9 000 levs. Those cheques will then be accepted as legal tender at the auctions of businesses, restaurants, shops and other property subject to privatization. Payments in cash will be restricted and investors will be encouraged to seek long-term, interest-free credit. Foreigners would be allowed to bid only within certain limits. One justification of the Equal Start Program is that the all-people's property has merely been a result of the "persistent overexploitation" of ordinary Bulgarians. Essentially, The Equal Start Program has stemmed from a number of deep-seated Marxist fallacies, e.g. that labor is the only source of income (otherwise, it is difficult to understand the logic behind the claim that the owner of the invested capital, i.e. the state, should not be allowed to keep its ownership at least over some part of the all-people's property. In addition, the program provides for a free distribution of investment cheques. The "equal start" would also favor the weakest and not the most entrepreneurial. That

reform would once again depersonalize property.

Furthermore, the only step that has been made towards the creation of a labor market in Bulgaria is the repealing of the administrative restrictions on the territorial mobility of labor. Otherwise, the main institutional actors have been very sluggish to adopt some regulations to counter the tendency of employers to refrain from offering jobs to recent college graduates and to start personnel cuts with young employees. Very little assistance has also been provided to secure information regarding new job openings and, respectively, the qualifications of people who seek jobs. The absence of a labor market in the country is, in addition, accompanied by the lack of effective mechanisms of free bargaining and labor remuneration.

The measures for restoring the country's credit standing have however been the most unproductive (actually counterproductive). In essence, the imposing of a moratorium on all payments on the foreign debt by the Bulgarian State Bank since March of 1990 (on the order of the government) as well as the depletion of almost all hard currency reserves of the country have brought about substantial difficulties in the relationship with the international financial community which has become very reluctant to lend money to Bulgaria. Note-worthy, the Bulgarian government has proved to be the only one in East Europe to adopt such kind of a measure due to the desire of the Socialist Party (then alone in power) to save the standard of living in the country from a significant deterioration at least until the parliamentary elections of June,

1990.

In general, the implementation of the economic reforms in Bulgaria has resulted in some significant changes in the domestic economy, which is by all means no longer centrally planned. Besides, consumption in the country has really been slashed to match local supply (which is one of the major goals of the Program for Economic Reforms). On the other hand, the disintegration of the domestic commodity market hasn't been confined yet, and the inflation has rapidly increased in the absence of labor and capital markets as well as of an efficient economic structure in the country. But while individual consumers and state-owned companies still receive support from the government, the young private businesses are supposed only to give away profits without receiving any tangible assistance from the outside. So, their profits have, in a large measure, been squeezed due to the physical decrease in local purchases as well as high income taxes (50% state taxes and 10% municipal taxes), high interest rates (paid, contrary to the practice in most countries, after all the taxes have been charged which has made interest payments in Bulgaria actually twice bigger), and the new 22% turnover tax. In addition, private companies have been burdened by numerous limitations in the spheres of material and technical supply (since the distribution of resources in the country is still centralized), distribution of the output, and international business activity.

In brief, most of the market economy principles and, in the first place, the creation of an environment that is conducive to

private entrepreneurship haven't materialized in Bulgaria yet due to the detrimental legacy of the communist-style economic management as well as the ideological and political differences among the main institutional actors at present. It should however be emphasized that the system of economic institutions in the country becomes increasingly liberated from outside ideological and political influences in the absence of totalitarian socio-political structures.

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