WORKING PAPER

THE HUMAN FACTOR: MANAGEMENT AND PERSONNEL ISSUES IN EAST-WEST JOINT VENTURES

Noah E. Gotbaum

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IIASA
International Institute
for Applied Systems Analysis

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FOREWORD

This working paper is one of a series* produced by IIASA discussing the practical problems of East–West Joint Ventures located in the CMEA countries.

In this paper the author discusses joint-ventures' salient managerial and personnel issues, an often overlooked but increasingly critical aspect in these cooperative ventures. Beyond analyzing relevant host-country legislation, the paper delves into actual human relations and organizational problems as discussed by joint-venture practitioners: managers, partners, rank and file employees, and government representatives. These practitioners help explain where likely trouble spots will arise in areas such as hiring, wage determination and incentivization, organizational set-up, productivity, and conflict resolution. They further explain the influential role of the host-country's general citizenry on the joint venture's success or failure. Importantly, the case studies also offer some practical solutions to these difficult issues.

While the economic environment of the Soviet Union and Eastern Europe changes daily, this analysis of how Eastern and Western management systems and personnel mesh in joint ventures is likely to continue to be relevant as the two systems move closer together.

Robert H. Pry
Director
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*To date, the following papers have been published:

Djarova, Julia Joint Ventures: A New Reality of East–West Cooperation (State-of-the-Art), June 1988, WP-88-054.

Benedek, Tamas Some Experiences of Joint Venture Establishment and Operation in Hungary, September 1988, WP-88-88.

Ranenko, V., Soloviev, I. Joint Ventures with Foreign Capital Participation in the Soviet Union: Experiences and Future Outlook, January 1989, WP-89-03

Soloviev, I. Guidelines of Foreign Partner Selection in the USSR, January 1989, WP-89-02

Razvigorova, E. Joint Ventures: A New Practice in Bulgarian Foreign Economic Legislation, March 1989, WP-89-026

Maciejko, R. Joint Ventures in Poland, May 1989, WP-89-36

Razvigorova, E., Djarova, J., Leitner, W. A New Step Forward for East–West Joint Ventures, June 1989, WP-89-040

Bečvář, O. Quo Vadis East–West Joint Venture? Reflections on Selected Aspects of the Development of East–West Joint Ventures, June 1989, WP-89-042

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I. INTRODUCTION

As Eastern European regimes crumble and the traditional central role of the state diminishes, East-West joint ventures are riding the slippery economic crest of change, a balancing act that requires perseverance, creative problem-solving, and a surprising amount of interpersonal skill and management. As is only recently being noted, East-West joint ventures are unpopular with many local citizens and public officials, who either view such partnerships as perpetrators of de-stabilizing unwanted change or as the source of growing jealousy between those who are and those who are not employed by them. This acceptance problem is further exacerbated by an Eastern workforce that often lacks the experience in independent initiative and decision-making needed to make the venture work. Such an environment can breed enough internal bickering and external strife to ruin any partnership. "Signing the papers that establish joint ventures is easy," says Michael Levit, a partner in the US-Soviet joint venture Symbol, "getting people to work together is much more difficult."

The tensions created by this lack of acceptance and free-market knowledge show up clearly in all levels of East-West joint-ventures' managerial and personnel relations: between government officials and the joint-venture management, between Eastern and Western managers, between management and workers, and finally, and perhaps most importantly, between the joint venture and the general population of the host countries. Such tensions can ultimately threaten investments by creating bureaucracy and increasing costs, while at the same time, decreasing output and product quality.

This paper uses case studies and extensive interviews to document and assess some of the key human resource and management issues in East–West joint ventures located in Bulgaria, Czechoslovakia, Hungary, Poland, and the Soviet Union. It also uses these actual operating experiences to demonstrate some basic solutions to common, and often avoidable, joint-venture tensions. In specific, this paper shows that the intelligent hiring of joint-venture managers and rank and file employees, an understanding of the limits and uses of material and other incentives, careful workplace organization, and simply an awareness of potential personnel and managerial issues can sometimes make the difference between profit and loss.

Beyond warning operators of potential pitfalls, however, joint-venture experience in labor and management issues may also destroy some negative myths about operations in the Soviet Union and Eastern Europe. Despite long-held beliefs to the contrary, the Eastern workforce can be highly productive, easily obtainable and extremely affordable. Similarly, open-minded Eastern managers with good interpersonal skills and contacts often create an open and highly productive work environment. Some joint-venture experiences have also shown that there can be advantages in dealing with the Eastern governments' centralized structure and bureaucracy; "The government moved a subway-line for us," exclaimed Flemming Jensen, General Manager of the Hotel Sheraton Balkan in Sofia, "...try getting that done in the West."

Finally, within the context of the fast-evolving and vague Eastern legal systems, these case studies show that operators must know more than basic host-country labor laws and managerial regulations. This is because joint-venture investors and operators may receive two or three different and often conflicting answers from Eastern government officials on legal questions of joint venture policy. "Trying to figure out the business law around here is like on-the-job legal training for both the government and for us," said one exasperated American executive. Even where guidelines appear steadfast, actual operations vary widely. In short, existing joint-venture practice, and not necessarily the written laws, often defines what operators can and can not do.

Certainly, human resource and managerial issues vary by industry. Perhaps more significantly, they differ based on the joint venture's host-country. Joint ventures in Prague operate in a different environment than those in Budapest or in Moscow. Where significant differences in legal and operating policy exist by country they have been documented. Yet, in all cases, East-West joint ventures represent the difficult but fascinating integration of the controlled and free-market systems. Or, as put more succinctly by PC WORLD-USSR board member Frank Cuttita, "...combining the two systems is like inviting tuxedos and leisure suits to the same party." As such, similar policies and problems arise and make sharing techniques and experiences valuable.

II. METHODOLOGY

The information used in this paper was collected between July 1988 and December 1989. It was gathered almost exclusively through free-form interviews with some 75 joint-venture managers, employees, shareholders, government officials, and other experts, representing 20 joint ventures located in the Soviet Union, Bulgaria, Czechoslovakia, Hungary and Poland[1] (see the appendix for a listing of the joint ventures involved). Because of the sensitivity of their positions, some interviewees would discuss certain issues only when granted anonymity. The 20 joint ventures, like the interviewees, were chosen to provide as broad a range of experiences as possible. They include production, service and retail joint ventures in fields which vary from tourism and publishing to high-technology and heavy manufacturing.

The case study selection and interview process provided this study with an operational focus and a richness of experiences that a more structured methodology could not accommodate. Thus, while this paper originally was to focus solely on labor and human resource issues, during the research phase the focus was expanded as joint venture operators revealed that managerial questions often play a critical role not only in setting human resource policy but also in determining the viability of the entire joint venture. Because most of the joint-venture operators could not be re-interviewed, this study does not try to describe the evolution of these issues over time, but merely documents the operational situation as it stood between mid 1988 and late 1989.

The next section of this paper provides some background on the partners that form East-West joint ventures and the top managerial structures they utilize: the Board of Shareholders, the Advisory Board and the Management Board. Section IV looks into the range of issues affecting the joint venture's top Eastern and Western managers, respectively. Section V analyzes these issues as they relate to the joint ventures' rank and file employees. Section VI offers some conclusions.

III. BACKGROUND

Because the focus of this paper is on joint-venture management and labor questions, the issues surrounding the joint-ventures' partners are investigated only in the context of their direct impact on the joint venture's daily management and human resource policy. Yet some brief background on the initial roles and tendencies of the Eastern and Western partners is helpful to understand the complexities faced by the joint ventures' full-time employees. These partners, in conjunction with the Eastern host government officials, not only define the purpose, scope and feasibility of the venture, but they also build its operating structure and select its management.

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[1] The case study of Sheraton's Hotel Balkan, while not a joint venture, was also used.

A. THE PARTNERS

Eastern partners in East-West joint ventures are almost exclusively government ministries or major factories and other business establishments (enterprises) under the supervision of a ministry. In some cases research institutes, banks, foreign trade organizations (FTO's), as well as smaller enterprises or cooperatives have received equity for the expertise, resources or personnel they bring to the venture. Partnerships that cross enterprise and ministry lines can pool resources and speed approvals in even the most highly segmented, planned economies like the Soviet Union and Czechoslovakia. In a few instances, Eastern governments have also given some of their citizens with close relationships to Western businessmen a free hand to establish and operate joint-ventures around those relationships; in return, however, the ministries and factories that formerly employed these citizens usually receive some ownership stake in the joint venture.

On the Western side, partners range from large multi-national corporations to individual entrepreneurs. Western partners of East-West joint ventures are almost exclusively for-profit institutions. Unlike their Eastern counterparts, partners from free-market countries generally have not teamed up with other Westerners when establishing joint ventures. This may be changing, though, as groups of corporations like the American Consortium have recently come together to pool complimentary resources and contacts.[2]

The factors which brought the 20 Eastern and Western partners in this study together were as varied as the businesses ultimately undertaken. Some major companies like Siemens and Honeywell had extensive previous experience with their Eastern partners; for them the joint venture was simply an extension of that historical involvement and an attempt to secure and expand their market shares in the East. In other instances, Western partners with specific business propositions but no prior experience in the East were directed by host-country government officials or trade organizations to the proper Eastern ministry and officials. In a few cases Eastern ministries or enterprises initiated the contact either by directly soliciting a specific Western company or through a Request for Proposal or "tender" process as it is known in the East.[3] Finally, some of the most successful joint ventures have evolved simply from chance meetings between like minded Eastern managers and Western businessmen at trade fairs or other similar events.

Despite beliefs to the contrary, prior working experience with one's joint-venture partner doesn't always help ease internal problems once operation gets underway. Certainly, an understanding of the host-country's operating environment and trust at both the partnership and managerial level is important. Nevertheless, as explained throughout this paper, both sides find that joint ventures create greater internal tensions than previous trade relations, especially in the management and personnel realm. Thus, and often to their surprise, experienced partners seem to have as much trouble working together as newly organized relationships. This may be because those Western partners with prior host country experience often are large organizations that attempt to establish equally large and complicated joint ventures which can be very difficult to govern.

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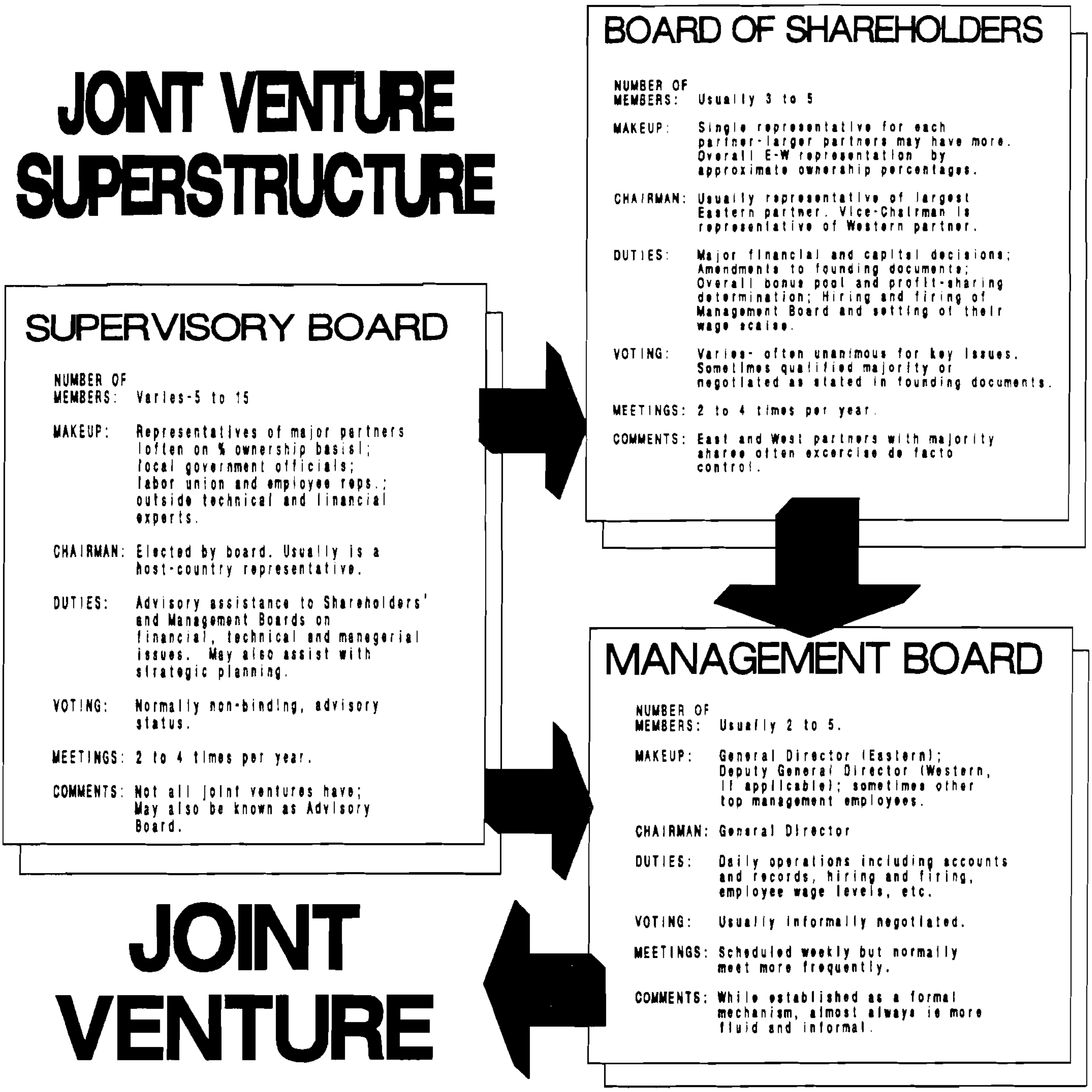
[2]The Consortium is a cooperative agreement formed in early 1989 by six major US corporations to develop US-Soviet joint ventures. It was established largely to use the Chevron Corporation's hard currency earning ability to circumvent the other companies' difficulties arising from the Soviet ruble's non-convertibility.

[3]For further information on the Tender process see Soloviev, I., "Guidelines of Foreign Partner Selection in the USSR." IIASA working paper WP-89-02, January 1989.

B. GOVERNANCE

Both large and small joint ventures normally employ the same basic managerial superstructures, which includes a Board of Shareholders, a Management Board and a Supervisory or Advisory Board.



Recent changes in host countries' joint venture laws have all but eliminated previous socialist government regulations over these superstructures. Governmental requirements regarding the size, or nationality and professional origin of the board members have been abolished. In all five countries analyzed, foreigners are now allowed to chair any of the three boards and may also serve as the joint-venture's General Director overseeing daily operations. Despite the legal changes, all the General Directors in this study were Eastern citizens. Western managers, when they existed, normally served as a Deputy General Director or in other top managerial positions. Notably, in order to counterbalance the potential for greater Western control brought on by the deregulation, the December 1988 Soviet Foreign Investment Decree stipulates that major decisions made by the Board of Directors now must be unanimous. However, what is considered a "major decision" is left up to the joint venture.[4]

When the negotiating concludes and all agreements have been signed, the joint venture's Management Board and other full-time employees often are left on their own to make the joint venture work. Yet, by most accounts (including, ironically, those of shareholders on both sides), negotiating partners consistently underestimate both the philosophical and logistical difficulties that East-West joint ventures will encounter in trying to mesh two very different economic systems. In the words of one Western Deputy General Director: "They set it up, and then they forget about it." The following is a look into what happens to the joint-venture's management and other full-time personnel after the partners have walked away.

IV. EASTERN MANAGEMENT

According to Dr. Franz Silbermayr, a member of the Board of Directors of the Austrian-Soviet joint venture Petrovoith, "Eastern managerial development, more than repatriation, capital or other questions, is the most critical issue facing East-West joint ventures today." Silbermayr is not alone in his belief. By most accounts the top Eastern managers, and specifically the General Director, are the joint venture's most important employees. Because of the host-countries' difficult business environments and traditions, internal managerial requirements, and the unfamiliarity of Western partners in operating in this new environment, top Eastern managers often control both the joint venture's external and internal relations. When these Eastern managers actively and independently work to promote the profit-making goals of the joint venture, success often follows. When they instead are too closely tied to the Eastern partner, or are too steeped in the traditions of the centralized economies, difficulties arise.

A. ROLES AND IMPORTANCE

The roles and importance of the Eastern Managers hinge on a number of factors. First, the Eastern host-countries clearly lack the service, legal and personnel infrastructures that many Western businessmen have come to rely on. Standard services from employment agencies to car rental companies are usually impossible to come by. Add to this the still strong control of the centralized planned economic systems, and it is easy to understand why H. Michael Mears, the US Commercial Counselor in Moscow, warns Westerners planning to work in these areas to be prepared to enter "not just another country, but another planet." Within these conditions Eastern managers are often heavily

[4] The Bulgarian Foreign Investment Decree #56 stipulates that joint venture founding documents must explain the Board of Directors' decision-making process.

relied on to use their contacts and experience to guide the joint venture through the external problems faced by the joint venture, be they supply bottlenecks, pricing problems, or superfluous government regulations. Comments Igor Faminsky, Director of the USSR's All Union Institute for Foreign Economic Affairs, (despite Western wishes to the contrary) "...it would be hard to imagine a foreigner playing the leading role as a General Director because few foreigners are familiar enough with the inner structure of the economy and the interaction between (Eastern) enterprises and ministries."

Eastern managers also often dictate the joint venture's internal operations. This has much to do both with the roles assigned by the partners and the joint venture's location in the East. With the overwhelming number of joint ventures' employees coming from the host-country, Eastern managers normally are asked to oversee personnel policy and, as explained in the following sections, to hire, fire and oversee day-to-day administration. In contrast, Western managers are normally responsible for technical oversight, export marketing and quality control. In some cases there are no full-time Western managers even employed by the joint venture. Certainly, exceptions to this structure exist, but for most joint ventures analyzed "...the Eastern General Director," explained one Western manager, "sets the tone...and everybody knows that he's the boss."

B. PERFORMANCE

According to Western partners and managers, the performance of these joint venture "bosses" has been mixed, with some getting high reviews and others vilified. About one in three Western joint venture representatives interviewed had serious problems with their top Eastern managers; in four cases the Western shareholders were working to replace the General Director or had already done so.[5] Complaints generally centered around the managers' lack of understanding of the free-market system and their dependence on hierarchic, bureaucratic structures. Whispered one Western Deputy General Director, "They're very autocratic around here. They don't like subordinates making decisions." This tendency may further explain the Eastern managers' controlling role in the joint venture. It may also explain why some Eastern managers are afraid to make decisions without the blessing of their superiors. Said one Western shareholder regarding a Polish General Director who has since been removed; "Every time he had to make a decision he'd pick up the phone and pass it by the ministry first."

This Eastern management dependence is based not only on a lack of experience in risk-taking and decision-making but also on an insecurity regarding the viability of new joint ventures. According to co-workers, some Eastern managers simply did not buy into the goals of the joint venture. Instead, they linked their personal fortunes to the stability of the Eastern Partner and the host-enterprise, whom they believed would be around far longer than the fledgling joint enterprise. Commenting on her joint venture's internal strife, a Soviet joint-venture employee warned that "...the General Director had better start realizing that his interests are tied to this joint venture or we're going to have a disaster on our hands."

But it is not always the Eastern managers who run the ship aground; sometimes the joint-venture's partners are also complicitous in managerial difficulties. Either they do not allow their respective managers to operate independently or they fail to work out their differing work-styles and goals during joint venture negotiations. Often Western partners sought production and distribution primarily to expand into the internal Eastern markets, while the Eastern partners wanted to produce for third markets and

[5] This frequency of Eastern management turnover was similar to that in Soviet joint ventures as a whole. According to Lev Weinberg, President of the Soviet Union's Joint Venture Club, 6 of the first 30 Soviet joint venture General Directors were replaced within the first eighteen months. Of course reasons beyond Western shareholder dissatisfaction may have caused this turnover.

immediately increase their hard currency receipts. Similar tensions arose over questions involving technology transfer. Western partners often sought to start the joint venture using less complicated cooperation methods such as assembly and service, while Eastern partners wanted more sophisticated technological production introduced sooner.

Interestingly, the most harmonious joint ventures often manifested a strong working relationship not only among managers but also specifically between the Western partners and the top Eastern manager. These relationships helped to set a precedent for balance and cooperation throughout the entire joint venture. In referring to the particularly successful US-Soviet joint venture Dialog, Michael Mears of the US Commerce Department explained that "...there is no question that the relationship between Joe Ritchie (the American partner) and Pyotr Zrelov (the Soviet manager) is the key to that joint venture's success."

Dialog, and other similarly successful joint ventures, often have another thing in common: independent Eastern managers with excellent managerial skills. From Poland to Hungary, such independence was made possible by partners on both sides that were not afraid to give their managers full operational decision-making power, in some cases making them partners as well. As for the special talents and qualities that partners might look for in top Eastern managers, they are varied and by most accounts, not always easy to find.

First, as explained, a quality Eastern manager must understand the workings and pitfalls of the changing socialist structure. He must also believe in the profit-making goals of the joint venture and be willing to work toward those goals. Futhermore, this manager should be, according to both Eastern and Western sources, an "entrepreneur" unafraid to take the risks required to navigate the joint venture through the difficult conditions of the Eastern market. Some experience in working in a free-market country usually helps here too. Does this mean that the manager must think and act "Western?" "No," says Zrelov of Dialog, "it is not Western thinking, it is simply logical thinking." Others would disagree.

By any name, the operating style of the Eastern managers can have a significant impact on the bottom line of the joint venture. Is he hiring active, energetic employees, or disinterested cast-offs from ministries under siege? Is he, as one Western joint venture manager explains, "...creating a family atmosphere of cooperation," or re-creating an Eastern bureaucracy where employees are afraid to make decisions and voice complaints? Perhaps most importantly, is he pushing the limits of the existing system knowing which regulations are steadfast and which ones are malleable in order to get the most for the joint venture, or does he simply say "it's not allowed."

C. HIRING

In all Eastern countries surveyed, both types of Eastern managers, the "traditional" and the "entrepreneurial," existed. Few of the managers surveyed, however, could be considered to be in between these two management styles. They either displayed an entrepreneurial "common sense" and energy, or they did not. Yet despite these large differences, and the leading role played by the top Eastern Managers, in two thirds of the cases analyzed Western shareholders had little input into the Eastern management's selection and in some cases had not even interviewed them prior to their hiring. "The ministry simply told us one day that they had chosen the General Director and the (Eastern) Deputy General Director," said one Western shareholder of a US-Soviet joint venture. When asked about this lack of involvement, shareholders often explained that during the normally tense negotiating period other issues seemed more pressing. Instead, most of the Western partners generally trusted the candidates put forth by their Eastern counterparts and anticipated working out any potential problems through the Board of Directors.

With few exceptions, the top Eastern managers are brought into the joint venture directly from key positions in the major host-country partner's ministry or enterprise. As former Financial and Deputy Directors within an enterprise or Department Directors within the ministries, most of these joint-venture General Directors and Eastern Deputy General Directors have held positions of reasonably high status and responsibility and often have worked closely with the Eastern members of the joint venture's Board of Shareholders. On rare occasions the joint venture placed public advertisements for top management positions. More frequently, top managers were part of the team that helped to initiate the joint venture and were handpicked by the Eastern partners.

D. WAGES

While Westerners often complain about the lack of available Eastern managerial talent, they can no longer point to explicit host-government wage limits as the cause. Joint ventures now are almost completely unregulated in this respect. One notable exception are host-government mandates that no hard currency be paid to Eastern citizens (except for per diem payments when traveling abroad).[6] In explaining the regulation, one Polish official said; "If we allow joint ventures to pay our people in "valuta" (foreign currency), then "valuta" becomes the legitimate currency in our country."[7]

Wages for the General Director and other Eastern managers usually are established by the major Eastern shareholder despite the fact that most founding documents assign the task to the full Board of Directors. All the Western partners interviewed, however, felt that Eastern management compensation, usually at 20–40% above comparable managerial levels, was extremely reasonable. For example, a Soviet General Director's base salary of 750 rubles per month (approximately two and a half to three times the average Soviet wage) translates to about $1200 US, with a Deputy General Director receiving about 100 rubles less per month.

Not surprisingly, these salaries create jealousies between the Eastern joint venture managers and top-level Eastern bureaucrats. Few enterprise directors or deputy ministers can understand why their former subordinates should now earn more than they are paid. These former bosses may also object to losing a key employee, often without compensation, and may be bitter that they themselves have not been chosen for the joint venture. "For managers moving from a major enterprise or ministry into a joint venture," says Michael Volodarsky, a Soviet advisor to the PC World-USSR joint venture, "it is like going from the public to the private sector in the United States. Although you may have fewer people reporting to you in the joint venture, you are paid more, you have much more responsibility for the bottom line of the enterprise, and you usually have higher status."

In these cases where tensions arose, the top Eastern partner will normally intervene on behalf of the embattled joint venture managers in an effort to insure the cooperation of enterprise and ministry leaders. In a few instances, however, the Eastern partners offered no such help. Instead the partners' relationships with the Eastern managers (with whom, in these instances, they had not worked previously) were acrimonious. A few explanations might be given for why these tensions exist: First, as the joint venture required Eastern managers to answer to both Eastern and Western partners, the Eastern partners became unhappy about losing some control over Eastern managers. The partners may also be responding to managers whom they found to be too entrepreneurial and

[6]Bulgarian Decree #56 is alone in allowing hard currency payments to Eastern citizens working in joint ventures. To date, Czechoslovakia has controlled all joint venture wages; Hungary imposes wage controls only on ventures with less than 20% foreign ownership and with a capitalization of less than 5 million forints.

[7]Interview with Mgr. Kazimierz Kalinowski, Director of the Department of Wages and Remuneration, Polish Ministry of Labor and Social Policy, summer 1988.

independent. Second, according to some sources, these partners were also unhappy that they were not as involved with the daily joint-venture operations as they would like to have been. And finally, some partners appeared to be having difficulty balancing their roles as head of two distinctly different and in some ways competitive entities. Ironically, in the few instances when problems between the Eastern partner and Eastern manager have arisen, the managers readily admit that they have become more closely allied with the Western partners. As one explained; "(the Western partner) and I are close. Without him around I probably would have been replaced long ago."

V. WESTERN MANAGEMENT

In many ways, looking into the human resource and managerial issues related to Western joint venture employees is more difficult than doing so for their Eastern counterparts. In part this is because there simply are not as many Western managers as Eastern, and partly because of the lesser roles that they often assume. What is clear is that host-country rules, regulations and difficult working conditions have a large and often negative impact on these Western joint-venture employees. Such hindrances increase costs and in-turn limit Western participation, sometimes even precluding full-time Western involvement.

A. ROLES

As the key representative of capitalist partners in the unsettled business environment of the Soviet Union and Eastern Europe, Western managers often have an extremely difficult role to play. They are directly responsible for the successful transfer of complex technology or services into an unprepared and resource-scarce setting, they must work closely with Eastern managers and employees (many of whom have had little training or experience in Western business ventures) and they must intuitively understand what is allowed and not allowed in a setting where rules are both fluid and vague.

Due to the relative high cost of employing and providing an infrastructure for Westerners in planned economies, Western employees are almost always in top managerial and technical positions. The roles of the Western Deputy General Director and other Western employees may be formally stated in the joint-venture's foundation documents or informally established over time. In most cases Western employees are asked to serve multiple functions within the joint venture. Beyond working with the Eastern General Director on basic administrative oversight, standard roles for Western managers and engineers include training, technical supervision, and quality control of the joint venture's goods or services. Western employees will also oversee home and third-country marketing and sales if the joint venture is exporting from the host-country.

B. WAGES

Adequately reimbursing Western employees can be both enormously expensive and, within some Eastern countries, highly regulated. Only a few Eastern European and Soviet cities have the infrastructure and services including apartments, automobiles, and schools that Western Managers and their families desire. Thus, both to entice competent and high-level workers, as well as to pay for the accommodations their managers desire, Western companies incur high costs. One partner cited an outlay of approximately $400,000 per year to employ a manager that would cost one-quarter to one-third of that in his home country.[8] Sometimes these high salary levels have resulted in an imbalance

[8] From 'Joint Misadventure', **Time Magazine** , April 10, 1989.

between the joint-venture manager's payments and those of other managers in the home-company. As one executive explained, "Compensation is so high that it is difficult for companies to fit the person back in the corporate hierarchy once they have finished their assignment."[9]

The affordability problem often is exacerbated by the fact that the major portion of Western staffs' salaries is borne by the Western partner alone – not the entire joint venture. Although all full-time Western employees received a local-currency (and sometimes a hard-currency) salary directly from the joint venture, in twelve out of thirteen cases these salaries had to be supplemented by hard currency payments directly from the Western partner. These payments, which are often accrued and repaid to the Western partner when the joint venture earns hard currency profits, have become a sensitive issue for a few joint ventures whose earnings have not matched their projections.

Those joint ventures that do not want to supplement Western salaries, or have trouble doing so because of host-country regulations, may simply forgo hiring Western employees entirely. Of the 20 joint ventures analyzed for this study, seven had no full-time Western staff. The absence of Westerners varied according to the host-country analyzed. Most of the Soviet Union and Hungarian-based joint ventures in this study had at least one full-time Western staff member, while few of the Polish, Bulgarian and Czechoslovakian joint ventures employed Westerners. In the latter countries, hiring has been limited due to laws or policies which require that hard currency salary payments come out of the joint venture's hard currency earnings, and currency exchange constraints which make repatriation and, thus, savings of the hard currency almost impossible for Western employees.

Not all joint ventures have suffered without full-time Western managers. The Austrian-Soviet joint venture Sporthotel Gudauri, which is developing a ski resort in Soviet Georgia, used experienced Hungarian managers to replace their more expensive Austrian employees. Other joint ventures avoided regulations and lowered costs by hiring Westerners either on a contract basis or by using Western partners and employees as consultants to oversee the joint venture's start-up and training and, later, to monitor progress with planned monthly visits. In such cases the Western partner usually assumes the hard currency portion of the employees' expenses, with the host-country partner or the joint venture paying for all local currency costs. Yet unless the joint enterprise is fairly simple or there is unusual trust between the Western partners and the Eastern managers, such arrangements generally require too much Western shareholder involvement in daily operations to be desired by either party.

Beyond a few complaints from Czech officials, the disparity between Eastern and Western management wage levels caused few tensions within the joint venture. This may be due to the fact that Eastern joint venture employees are among the highest paid in their countries. It also may be a result of East-bloc tradition in which Westerners, and some highly privileged Eastern citizens, have been accorded "more equal" treatment. "Socialist country citizens," explained one Western Deputy General Director, "are used to having foreigners treated differently. Foreigners get off airplanes first, wait in fewer lines and are able to buy certain goods (with hard currency) that natives can only look at." He stated that Eastern employees are extremely reluctant to 'rock the boat' even if they have been mistreated. This trend may be changing, however, in light of the East's recent political and labor upheavals.

To insure that their accrued benefits and seniority within the home country are retained, Western joint-venture managers normally continue their existing employment contracts with the Western partner. The partner then contracts with the joint venture

[9]From "A New Supply Problem: Executives in East Europe," in **The International Herald Tribune**, December 14, 1989.

for the employee's services. Occasionally the Western employee signs dual contracts with the joint venture and with the Western partner. Explicit Eastern government approvals for full time Western employees are no longer required (except in Poland). Still, joint ventures find it good practice to clear incoming Western employees through their major Eastern shareholders. Most originating joint venture documents include the number and names of their Western employees as well.

In rare instances, Western employees have been asked to join host-country labor unions. Those interviewed declined since their pension, health and vacation benefits dictated and provided by their Western employer, were usually quite sufficient. Nevertheless, in the countries analyzed the joint venture is required to make standard payments into its "social development" fund for pensions and health insurance for all employees.[10] With the exception of consultants, Western joint-venture employees must pay standard income taxes in the host-countries. Some Western shareholders have decided to reimburse their employees for taxes paid to host-country governments since there are few tax treaties between these countries and their free-market counterparts.

C. HIRING/LIVING AND WORKING CONDITIONS

Perhaps because they were able to bring in long-time, well-established employees for placement in major Eastern European and Soviet cities, most joint ventures in this sample did not express difficulty in finding competent Western managers. Yet by many accounts, such hiring is not always easy. Recently an executive search firm found twelve suitable candidates for a top management job in a US-Soviet joint venture on the Black Sea, only to have all twelve decline the job because their spouses refused to relocate.[11] Younger employees may be more willing to relocate to join joint ventures, but often companies seek managers with further developed skills. While increasing "Westernization" and interest in East Europe could help, the problem could remain as joint ventures are now spreading to more remote, and less desirable, Eastern European and Soviet cities.

A large part of this lack of desirability is that daily life still is not easy for Western joint venture employees in a region where Westerners have not always been welcome or prevalent. This problem is especially acute in the Soviet Union and until recently in Hungary where some joint ventures have been forced to rely on government agencies such as the Soviets' UPDK (Upravlenyin Po Obsluschivonyiu Diplomatitsheskovo Korpusa) and the Hungarian PKI (Penz Intezi Kozpont), which procure consumer and business services for foreigners at hard currency costs which approach those in major Western cities.

To avoid these costs some joint ventures have begun to contract with newly-formed cooperatives for services that range from translating to chauffeuring. Western employees who rely on the Eastern partner's pre-existing service infrastructure and contacts to assist their search, however, often come up either empty-handed or unhappy with results. Said the wife of one Western manager surveying her newly acquired Moscow apartment; "This may be luxurious by their standards – but definitely not by ours." And because consumer items in the East are far scarcer than the currency used to buy them, Western managers may also find that their Eastern co-managers are not as understanding about such differences in living standards as they are about salary differentials.

Western managers also complain that resource scarcity and extensive regulation hamper the daily management of joint ventures. These problems are again most prevalent in the Soviet Union, where obtaining visas for international travel and re-entry, and gaining government clearances for domestic travel often must be planned well in

[10] Hungary requires these payments only if the employee uses the system. In the Soviet Union payments made for Western employees may be reimbursed when the employee leaves the country.

[11] From "A New Supply Problem: Executives in East Europe," in **The International Herald Tribune** , December 14, 1989.

advance. Basic office supplies imported from the West, such as telefax and copy machines, may take months to clear customs. Despite recent legal revisions, some joint ventures still are forced to use hard currency to pay for items such as domestic air travel and visits from the Western partner's representatives.

As has often been noted, one of the biggest managerial difficulties is the lack of office space. One Western manager is contemplating leaving the joint venture simply because he is too frustrated with trying to manage it out of his Moscow hotel room. Combustion Engineering's AES-Pris joint venture with the Soviet Petrochemical Refining Ministry has some 50-odd employees spread over three locations, one of which is a highly security-conscious federal office building. Andy Pechkovsky, the joint venture's Western deputy general director noted that it may take him half a day simply to get clearance to see his employees; "A problem," he lamented, "which makes hands-on management somewhat difficult." Nevertheless, Pechkovsky seems to understand the constraints of doing business in a planned economic environment. "Would we ever let Soviet citizens into the Pentagon or some of our other government centers without proper clearance?" he asked rhetorically.

Those Western partners that have had a representative office with foreign credentials, apartments and other resources that predate the establishment of the joint venture have a valuable head-start against their competitors. In addition to better contacts, these well established Westerners also have a base of knowledgeable and trusted employees, both local and from abroad, on which they can build their joint-venture's business. Shareholders on both sides must be aware, however, of the tensions that are likely to arise in the few cases when a joint-venture manager continues to work on non joint-venture business in the region.

VI. MIDDLE AND LOWER LEVEL EASTERN EMPLOYEES

While the workers of Eastern Europe and the Soviet Union have a reputation for being unproductive and difficult to motivate, many joint ventures have been pleasantly surprised. Within certain fields, Eastern joint venture employees, if thoughtfully hired, can perform excellent work at comparatively low wages. Joint ventures' special status and ability to pay higher wages makes hiring and motivating workers far easier than for standard Eastern European and Soviet enterprises. Yet, as with many issues of joint-venture operation, this special status can be a double-edged sword also leading to tensions with host-country partners, government officials and fellow workers. With Eastern rank and file employees constituting by far the largest share of most joint-venture payrolls, managers and shareholders must be aware of these impediments in order to take advantage of the opportunities.

A. HIRING

By most accounts, the hiring of the Eastern workforce is one of the most critical roles of the joint-venture's managers. It may also be one of their most sensitive. Although finding employees willing to join these new enterprises is often far easier than locating other joint venture "inputs," the source of these workers must be carefully attended to. Handpicking employees from various sources almost inevitably incurs the jealousy of former employers. Hiring instead directly from the Eastern partner on a large or small scale, while often speeding start-up and increasing contracting-out flexibility, may create its own tensions with the non-hired employees and even with the Eastern partner.

Part of the initial tension accompanying joint-venture hiring is based in traditional socialist theory which has sought to protect its citizens from becoming spare parts for capitalist gain. "You must realize," explains Michael Mears, "that (Eastern) citizens working directly for capitalists is one of the great taboos in these countries." Thus, prior to the joint-venture laws, Western businesses could only hire socialist citizens indirectly through contract relationships with organizations like the previously mentioned Soviet UPDK and the Hungarian PKI which established most terms of employment. In the era of joint ventures, the proscription against a direct link between capitalist owners and socialist laborers has evolved into explicit warnings by Eastern governments against joint ventures that exploit, rather than train, the host-country workforce. In part, joint ventures have served to make employment between capitalists and socialists more palatable by insuring the mediating influence of the Eastern partner.

This mediating effect, however, does not appear to have moderated Eastern citizens' desires to attain the benefits that joint ventures can provide as few of the joint ventures analyzed had difficulty in finding job candidates. Echoing many of his colleagues, Stanislav Holenda, Technical Director of the Czech-Dutch joint venture Avex explained that, "I have people constantly coming in off the street."

At the Huta Kosciusko steel mill in Western Poland, the ITHK joint venture was founded in an attempt to turnaround an undesirable portion of the mill that could no longer find replacements for its exiting workforce. After increasing salaries, and adding minor capital investments, the joint venture is turning a profit within the previously unprofitable division. Now, with demand to work in the joint venture so high, ITHK's Eastern partners have forced the joint venture to sign an agreement not to hire any more employees from within the enterprise. Beyond the complaints of fellow Eastern employers, some government officials also fear the allure to Eastern citizens that joint ventures create. Says Anna Halustyik, an advisor to the Hungarian government on joint-venture law, "I am worried that because joint ventures can provide better financial and professional conditions than our standard enterprises, they will artificially select employees and drain away the talent needed for our general economic reform."

The incentives that Halustyik refers to include training and access to high-technology products, upgraded work facilities and in some cases, the chance to travel and earn hard currency through per-diem expense payments. Eastern managers and workers also cite the attractiveness of working within a less-hierarchical, freer Western management structure and style that may be the model for future Eastern enterprises. Finally, in attracting the Eastern workforce, one must not underestimate the importance of money and joint ventures' ability to pay salaries that other Eastern enterprises normally cannot match. Says Karoly Csanadi of the Hungarian Chamber of Commerce echoing the feelings of many joint venture operators: "While employees want experience with new technology, new organizations and new freedoms, higher pay is still the best incentive for workers to join joint ventures."

The hiring of host-country citizens into joint ventures is, for the most part, the exclusive purview of the General Director or the Eastern Deputy General Director, although some Western managers and shareholders have been very involved in the process. Most joint-venture employees usually are hired directly through the main partner ministry or enterprise or from the informal personal networks of the top management. In some cases, public advertisements and concourses (contests where potential employees must solve a particular service or engineering problem) are also utilized. There also have been some instances where Eastern employees were hired through the contacts and the recommendation of Western managers. Such hiring procedure may be considered risky for the Eastern applicant, however, in countries that remain highly security-conscious.

As explained in the section on employee performance, handpicking employees from various sources is often considered the best way to insure quality hiring. Yet those that do so may run into stiff resistance from ministries and enterprises which stand to lose their best employees and gain little in return. Says Paul Pflamitzer, partner and former Deputy General Director of the Hungarian-Austrian joint venture OTP-Penta Tours; "If the home enterprise finds out that one of their employees is out looking for a job, they'll kill the person." This resistance is especially prevalent in Czechoslovakia and the USSR where there is no real tradition of labor market fluidity and where government protection of joint ventures against fearful bureaucrats has been inconsistent. In these cases, joint ventures may have to assure potential employees a job or, at a minimum, clearance from levels above their immediate bosses as a pre-condition for application. As explained by Vatslav Krotov, the Soviet General Director of the AES-PRIS joint venture, "People don't budge without instructions from the top, without the right political protection."[12]

Eastern governments are addressing these problems in different ways. In Bulgaria, and recently in the Soviet Union, laws have been passed which allow enterprises that provide intermediate inputs (including labor) to share the benefits of joint ventures by receiving some hard currency payments. Poland has taken a slightly different tack; there, top government officials have led interference through the roadblocks established by lower level bureaucrats. According to one Polish General Director, this direct pressure has succeeded; "We used to be treated like dogs," he says, "now we are like cows in India." Respective of the country and the level of government support however, Eastern partners and managers still are the first and last lines of defense in freeing joint ventures of bureaucratic and political resistance in hiring.

Hiring directly from the key shareholder ministry or enterprise, or contracting wholesale with shareholders' enterprises, which is standard in large production joint ventures, normally eases the hiring process and may provide flexibility. This reliance often significantly shortens the joint venture's start-up time. Guesswork is minimized as joint ventures doing so are aware of applicants' track records before hiring. In the instances where they may be dissatisfied with an employee's performance, the joint venture hiring directly from their Eastern partners sometimes return those employees to their former positions.

A close connection with the Eastern partner may also make for a more flexible hiring policy. Honeywell's joint venture Systematics hires most of its employees on a part time, contract basis from its Eastern partner, the Bulgarian Chemical Ministry. When demand is strong, the joint venture hires more technicians. When demand is weak, the technicians return to their positions within the ministry. The Bulgarian partner benefits from its share of the joint-venture's profits and from extra payments, some of which is in hard currency, for the loan of the employee. The ministry also gains an upgraded, better-trained workforce. Honeywell benefits from a profitable joint venture that always matches its payroll with its demand.

In Hungary, a major challenge for public or private firms alike is to maintain worker productivity and allegiance in an economy where a large percentage of the workforce holds second jobs. Instead of working against this tendency, the West German-Hungarian joint venture Sicontact has utilized it to their advantage. Sicontact has ceded its entire after-hours service department to a quasi-private company or "VGMK" (Enterprise Business Work Unit) established and run by its employees. Reiner Schoning, the joint venture's German Deputy General Director, is extremely satisfied with the situation. Says Schoning, "With this arrangement I don't have to worry about the quality of Sicontact's 24-hour service. I also don't worry about the kind of second job that our employees are taking." The McDonalds joint venture in Hungary is also accommodating itself to the "second economy" as some of the joint-venture's administrative staff have begun giving private English lessons to their floor workers during non-business hours.

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[12]From "Perestroika's Yankee Partner; Inside Combustion Engineering's joint venture," in **The New York Times Magazine** , June 11, 1989.

Despite the advantages, some Western representatives have noted that a few words of caution should precede a joint venture's hiring a majority of its employees from the major shareholding Eastern ministry or enterprise. First, Eastern employees may be less likely to put the independent interests of the joint venture ahead of those of their former employers (a tendency which, Eastern representatives point out, affects Western employees as well). Second, employees hired from outside of the major partner's fold do not always receive the same treatment as their counterparts when it comes to salaries and promotion opportunities. As explained, in some cases these employees have turned in confidence to Western managers and shareholders for support, thereby creating internal divisions within the joint venture. Third, hiring a critical mass from an Eastern enterprise increases the chances that the bureaucratic procedures of that enterprise might pervade the joint venture as well.

Yet the biggest problem in a joint venture's strong connection with a large existing enterprise or ministry has as much to do with the joint venture's organizational layout as it does with its hiring policy. Frequently, Eastern shareholders and managers mention that jealousy of non-joint venture employees working next to or near their better paid colleagues de-motivates enterprise workers and threatens the joint venture's internal peace. To allay these tensions, Eastern partners often spread the fruits of the joint venture to its non joint-venture employees in the form of upgraded facilities and other hard-currency purchased benefits. Persuasion tactics may also be utilized. At the Kosciusko mill, management held a company wide meeting at which the joint-venture's workers where asked to "testify" that their longer work days and meager benefits were a fair tradeoff for their higher salaries. In spite of these, and other peace-keeping efforts, most joint ventures have ended up simply having to physically separate their employees from the enterprise's standard workforce.

B. WAGES

While most shareholders agree that Eastern joint-venture employees can be hired at bargain rates, in practice, setting these rates can be extremely tricky. Because equality of reward, irrespective of performance, has prevailed throughout Eastern Europe and the Soviet Union, public and private pressures against wage differentials and performance payments abound. To deal with this, all but a few East-West joint ventures self-regulate both the levels and the methods of paying their employees. "Don't think," warns Adriano Callegari, Deputy General Director of the US-Soviet Sterch-Honeywell joint venture, "that you can walk in and structure salaries and bonuses like we do in the West."

In the long-term, the consumer power of the 400 million person Eastern European and Soviet market is often touted as the chief reason that Western companies brave the difficult world of East-West joint ventures. Yet many joint ventures are finding that the East's inexpensive labor supply not only helps short-term stability, but also can be a key to future export profitability. "At hourly wages of between $1.30 and $2.00 per hour fully-loaded," says economist Jan Vanous, "the Eastern labor market can compete with any around. And most are located within only 1500 kilometers from Central Europe." Vanous points out that highly skilled engineers and scientists can be hired at one-fifth to one-tenth of their costs in the West. "And comparative costs should be even less," he says, "as real effective exchange rates move downward in these countries."[13]

Below are a few examples of how some joint ventures take advantage of these beneficial wage and skill levels:

[13]Comments made at the Malenta, West Germany Symposium on East-West relations, 10/16/89.

- Numerous joint ventures are using highly-skilled Eastern engineers to replace their more expensive Western counterparts, thereby lowering the costs of products exported from the West. Systematics, among a number of other joint ventures, uses software designed by its Bulgarian employees to accompany its equipment sold around the world.

- Petrovoith, Honeywell and other joint ventures find that by using Eastern, instead of Western employees to service and install their products, they are able to charge their Eastern customers less hard currency, thereby retaining a competitive price advantage to expand their market share. Sicontact's Schoning says that his joint venture is providing "German engineering in Hungarian hands." It is also providing it at closer to local Hungarian prices.

- Eastern employees can also help to expand capacity and with it, profitability. The Hanna-Barbera production company, which had difficulty hiring Western animators at any price, uses its joint venture in Poland to bring in "some of the best animators in the world."[14] Paying by piece, they have been able to hire almost 100 new cartoonists for their North American and European productions at bargain prices.

While formal governmental regulations on joint-venture wage payments have diminished, informal pressures are felt by almost all joint-venture managers. From Budapest to Leningrad, joint-venture operators hope to avoid the public animosity and backlash that has befallen many cooperatives and other newly private institutions. Inside the workplace, as explained, wage differentials lead to headaches for both the home enterprise and the joint venture. Government pressures to keep wages in line, while less overt, also exist. In Poland this pressure seems to be less intense, but other countries are not so open. For example, Bulgaria's Decree #56 ended all formal government involvement in setting Eastern joint-venture wages and also allowed hard currency salary payments. When asked, however, if any joint ventures have taken advantage of the changes, a joint-venture manager nodded toward a government official saying "Are you kidding? In practice they still control us." And, as Eastern governments nominally give joint ventures increased freedom to pay their employees as they please on the one hand, some have started taking back control with the other by implementing highly regressive income tax schemes that severely undercut the usefulness of allowable wage hikes.

In treading this thin line between backlash and acceptance, joint ventures have carefully, and sometimes creatively, structured their employee payments to increase paychecks. These salary schemes, which normally are determined by the shareholders in smaller joint ventures and by the management board in the larger joint ventures, can be segmented into three major groups. The first, which is made up of the most numerous and the highest profile joint ventures, normally set base salaries within approximately 20% of comparable levels for regulated enterprises and later add discretionary bonuses and profit-sharing where possible. These joint ventures may further disguise bonus payments under the terms such as "functional allowance" or "additional expense requirements." The second set of joint ventures, which usually are smaller, less visible and not as sensitive to outside pressures, sets base salaries at 20–70% above comparable government standards, again adding bonuses and profit-sharing above that. Finally, a small minority of joint ventures, mainly in Poland, set piece-rate levels. But usually offer little or no additional bonus. Commission payments do not appear to have hit the planned economic world as yet. With the payment of higher salaries, joint ventures generally do not pay

[14] Conversation with Jerzy A. Schon, Chairman of the Hanna-Barbera Poland joint-venture Supervisory Council, summer 1988.

overtime except to low level factory workers.

Discretionary bonus payments, normally less visible to outside parties, often constitute the major salary differences between joint-venture and standard host-country salaries. These payments may be equivalent to three to four months standard salary payments before profit-sharing is considered. To understand this bonus implementation, a bit of background on standard host-country bonus procedure is helpful.

Generally, CMEA country enterprises make payments into a Material Incentive Fund for bonuses, which theoretically rises or falls based on an enterprise's " profitability."[15] Each employee's portion of the fund is then determined by a committee made up of managers, labor union and employee representatives. Since most socialist enterprise revenues have been pre-determined by government however, and since Eastern economies have bred a tradition of equal pay regardless of performance, little variation exists among different enterprises' bonus pools or among their employees' shares of that pool.

Joint ventures generally use the Material Incentive Fund procedure for bonuses, except unlike standard Eastern enterprises they base their overall fund allocation on profits instead of government mandates. Normally the Board of Directors determines the overall bonus pool and the Management Board sets individual bonuses. According to joint-venture managers, the various members of the joint venture's Material Incentive Committee then rubberstamp these apportionments. Despite their more market-oriented structure, however, joint-venture bonus policies in practice are still a far cry from the profitability and performance-based systems that many Western companies utilize. Once again, tensions rising from socialist traditions are the cause.

In the Soviet Union for example, some joint-venture shareholders have complained that the government forces them to place most employee compensation within more visible base-wage payments by making bonuses non-tax deductible (government officials dispute this however). Other joint-venture officials explain that since most Eastern employees are used to receiving a bonus regardless of their enterprise's performance, joint ventures are under extreme pressure to make payments into their Material Incentive Funds regardless of profitability.

Traditions of equality have also made the tracking of, and the compensation for, individual employee performance nearly impossible. Says OTP-Penta's Pflamitzer, "I can't run a business without determining profit centers, and I can't determine profit centers without monitoring and evaluating employee performance. Yet when I tried to set up an in-house evaluation system within the joint venture, I almost caused a riot." Other Western and Eastern managers recount having asked middle-level colleagues to distribute bonus pools based on employee performance only to find out later that the fund had instead been divided equally or that distributions had been based on seniority. As one Western manager explains; "These people have been taught their entire lives that they are all equal; how the hell can we now expect to walk in and get them to believe that some are better than others – and that the better ones should be paid for it?"

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[15] CMEA, the Council for Mutual Economic Assistance, is a trading alliance that includes the five countries analyzed in this study as well as Cuba, Romania and Vietnam.

C. BENEFITS, LABOR UNIONS, PARTY INFLUENCE AND CONTRACTS

Although higher salaries and bonuses are by consensus the most important motivating factor for host-country employees, material fringe benefits are critical and traditional compensation in countries where shortages of consumer goods prevail. With the exception of those in Poland, most joint ventures have found it necessary to match the social benefits such as housing, vacation accommodations, and even schooling for employees' children, that Eastern employers traditionally have provided. At the joint venture's outset these benefits usually are provided through the pre-existing infrastructure of the major Eastern partner and their labor unions, although some of larger joint ventures have started to build their own benefit network. And recently, using their access to hard currency, some joint ventures have begun distributing rarely found items like shampoo and coffee to their workers.

Through their ownership of parts of this infrastructure, and through their distribution of the holdings of the joint ventures' "Social Funds" which pay for these benefits, labor unions have in some cases assured themselves a role in East-West joint ventures. Like standard socialist enterprises, joint ventures in the East are required to make payments into these funds and, with the exception of Poland, they are also required to form a labor union to help in the distribution. The speed with which joint ventures have obeyed these government mandates has varied however. Most joint ventures initially use the existing unions of the major host enterprise or ministry. In recent discussions, however, Lev Weinberg, General Director of the French-Italian-Soviet joint venture Interquadro and Chairman of the Soviet Union's Joint-Venture Club, has mentioned that many small to medium-sized Soviet joint ventures are now working together to establish a joint-venture labor union and to pool resources to provide a cost-effective common benefit structure.

Yet beyond providing the service infrastructure and serving as administrative organs for distribution of the material, sickness and pension benefits, Eastern unions are largely seen as formalities with little authority over the joint-venture's economics. This view is consistent regardless of whom one speaks with. One Hungarian labor union official complained that unions were in a state of "complete disaster." Perhaps noting this, some Polish joint ventures are now abandoning both unions and the socialist tradition of providing many benefits and little salary. "Our people," says Hanna-Barbera Poland's General Director Wojciech Trzcinski, "get no free coal, no free vegetables, no rent assistance, no nothing...just far better salaries. And we don't have a union." Still, until Eastern citizens are able to buy more goods with their salaries, and joint venture regulations are relaxed, the Hanna-Barbera model probably will not spread.

Like most Eastern enterprises, many joint ventures have had an internal Communist Party apparatus where employees who are party members can meet and discuss issues of their choosing. Nevertheless, the party apparatus appears to have had little direct involvement in joint-venture management in the past and should have even less as the party loses control over governments throughout Eastern Europe. Few top Eastern joint-venture managers interviewed were party members and, in most cases, the party had neither a formal nor an informal role in hiring or operations. A notable exception has been in Czechoslovakia where the upper management of the country's few joint ventures were formally approved by party officials.

When moving into positions with joint ventures, most Eastern employees are mandated by law to provide their former employers with at least two months notice. All joint ventures established formal probation periods of two to six months for their new employees; yet rarely were workers let go after such periods. In part this is because the joint ventures were satisfied with their work. Yet most joint venture managers (outside of a few consumer-service joint ventures) also admitted that true probationary periods were unrealistic, and that as previously explained, longer employment commitments were required for joint ventures to lure the employees that they wanted.

Once hired, host-country employees normally are party to two contracts with the joint venture. The Individual Contract, establishes the employee's pay scale, seniority level and specific duties. The Universal or Collective contract is signed with the shareholders on behalf of all the joint-venture employees. The Universal contract is negotiated by worker representatives and, where they exist, labor unions. It establishes working hours, termination policy, and general medical, meal and vacation benefits. The term "negotiated" should be used loosely as national labor law dictates much of its content.

A few joint-venture operators in the Soviet Union have also quietly mentioned that illegal mafia-like organizations or "rackets" have been vying to fill the influence vacuum left by the diminishing role of the party, the state and the unions. These rackets prey on cooperatives, some joint ventures, and their employees by demanding "protection" money from those that "earn too much." Those that refuse to pay may have their premises vandalized, their "Western" possessions stolen or destroyed, or worse. According to the victims, Soviet officials offer little relief from these rackets. "When I called the Police and identified the racketeers," said one joint-venture operator, "they laughed at me and told me that compared with the unrest in the republics, my problem is too small to deal with."

D. PERFORMANCE, EFFICIENCY, BUREAUCRACY

The accessibility and affordability of Eastern employees to joint ventures clearly means little if these employees are unproductive. Yet many joint ventures, including approximately 3/4 of those surveyed here, have been quite satisfied with their Eastern rank and file employees. In part joint ventures have found that good performance and productivity is simply dependent on finding the right individuals. But other factors, such as in which economic sector the joint venture is active, how the joint venture motivates its employees, and whether the joint venture can avoid the internal inefficiency and bureaucracy that plague many Eastern enterprises, are also critical in getting the most out of the rank and file.

Despite the workforce's reputation as unmotivated and unproductive, most Eastern joint venture employees are, according to many sources, mechanically well-skilled and enthusiastic about working with "Western" technologies. Thus, many joint ventures that design, assemble, service and install low-tech and medium-tech products like computers, office automation systems and automated control systems are extremely happy with their employees. "They're better than back home," says Combustion Engineering's Pechkovsky. These joint ventures are taking full advantage of the Eastern economies' strong educational focus on engineering and technical management in which, according to Interquadro Deputy General Director Mario Germondari "...the price of good minds is being subsidized by the government."

Those joint ventures, however, that are dependent not on their employees' technical finesse, but rather on their understanding and adaptability to market and consumer-oriented services receive no such benefits. Thus, managers of joint ventures in the tourism and restaurant field, for example, complain that employees must often be pushed to be responsive in environments where the consumer traditionally has had low standing and no alternatives beyond the government. "I don't know how many times I have tried to teach (the employees) to put the ashtrays in front of the customers instead of in front of the empty chairs," laments OTP-Penta's Pflamitzer.

Despite the problems, partners and managers say that with some effort, and the correct means, Eastern employees in all sectors can be trained and motivated. First, as explained, the example provided by a hardworking and open-thinking Management Board can be critical. Some Western managers have mentioned that the remnants of the socialist hierarchies have left middle and lower level employees distrustful of their superiors. Thus, when managers role up their sleeves instead of simply giving orders, much progress can be made. In this regard, informal meetings and firm-wide social outings have also been helpful. In part this effort also hopes to show workers that they are employed by a special type of enterprise which can provide them with special opportunities. Explains ITHK partner Joachim Sombert: "We have imported a new spirit and approach...which means a work trial period, piece work and performance-related payments. The offices and halls were modernized and equipped Western style. All this has naturally motivated the work force."[16]

As Sombert mentions, the motivational effects of material incentives are also not to be denied. Herbert Kapellar, a manager with the Ilbau construction company responsible for the building of the LIM-Marriot Hotel in Warsaw noted that he could tell which of his subcontractors paid their Polish employees higher than state-mandated wages simply by looking at the productivity differences. Where employees directly received the piece payments that Ilbau was paying the subcontractor, Polish productivity approximated that of the Western workers on site. But when the subcontractor (often state-controlled) held Polish wages down, the productivity differences could be as great as four to one. "One must remember," mentions Kapellar, "that (these) employees have proven themselves to be excellent workers in other countries. The incentives and the employment environment must be right, however."

These "environmental" issues often revolve around the quality and age of the tools and machinery with which Eastern employees work, as well as the administrative efficiency of their workplace. In terms of the former, most joint ventures, recognizing that obsolete or faulty machinery will hinder the productivity of even the most highly motivated and trained workers, have brought new technology and machinery as part of their initial contribution to the joint venture's start-up capital. Surveying the results of new machinery and materials installed into his plant, one Eastern joint venture manager mentioned that it was difficult to compare his former workplace to his new one: "It's as if before our products were hand-made; now they are machine-made."

Administrative changes can also have a large impact on this transition, and in the East bloc that usually means reducing bureaucracy. At Hanna-Barbera, for example, administrative staff now make up ten percent of the employees, whereas for the non-joint venture portion of the same factory administrators make up almost 60 per cent of the workforce. Many other joint ventures cite similar disparities. "The result," says Hanna-Barbera's Trzcinski, "is that work that used to take four months now takes two weeks."

Of course, critical to motivating Eastern employees and reducing bureaucracy is hiring employees that are open to the new working conditions that joint ventures pose. Says Sheraton's Jensen: "Many of the workers are great, you just have to find them." For most joint-venture managers, finding the right employees often means looking once more for what many called "entrepreneurs;" employees eager to take on varied roles and work harder and longer than the average citizen, thus, enabling the joint venture to hire fewer employees. In seeking such workers, joint ventures often limited their applicant pool to younger citizens. Says one Russian joint-venture manager: "Age is definitely a factor – older citizens are a product of a 70 year-old stagnant system." Georgy Prityko, Chairman of Board of the Sterch-Honeywell joint venture agreed: "We won't hire anyone over forty. Otherwise they are just too difficult to train. Joint ventures are, and have to be, a matter of the future."

Yet even when handpicking employees from a limited applicant pool, finding employees capable of thriving under the new conditions is not easy. "A lot of it is just plain luck," says Kapeller. Because of this, many joint ventures, especially those in the consumer-service sector, have resorted to what they call the "shakedown" process. They hire more employees than they need, find the ones that are competent, and then over the

[16] From 'Auf Schrott gebaut', **Unsere Wirtschaft** magazine, the Düsseldorf Chamber of Commerce and Industry, November, 1989.

course of approximately one year reduce the workforce size and increase pay levels. The McDonalds joint venture in Budapest, for example, started with 300 full-time and 120 part-time employees, but hopes eventually to end up with half as many.

This weeding out process partially benefits from what Leonid Govoryutkin, Deputy General Director of the AES-Pris joint venture calls a "natural selection" whereby Eastern workers that don't have the flexibility or desire to put in the hours that the new enterprises require leave the joint venture of their own volition. In some cases, these workers were simply not motivated or adaptable and wanted out of the joint venture as soon as they realized that their higher wages would not come easily. Yet other, seemingly excellent employees also are part of the shakedown, often leaving after burning out from the hectic early-days of the joint venture. Says one employee of a service joint venture located in Moscow: "I've been working 12 and 14 hour days for the last three months, and I'm still waiting for my bonus. Even if it's huge it can't be worth this work." She has since left that joint venture to work with another Western company.

Certainly, not all joint ventures have been able to control administrative numbers like Hanna-Barbera or "shakedown" their workforce through natural attrition. As discussed later, some joint venture managers have had to coerce or fire Eastern employees that they do not need or approve of, each with varying degrees of success. And, as explained, some Eastern managers never intend to reduce the number of employees but instead hope to recreate former bureaucracies. "They just want big," complained one Western joint venture manager. To combat this, some Western companies have had hiring limits and administrative quotas written into their joint venture's founding documents.

Not surprisingly, some Eastern government officials have also "wanted big," as more than a few joint ventures have come under pressure to hire along the lines of traditional socialist enterprises. Heinz Chytil, the Austrian Deputy Director of the Sporthotel Gudauri joint venture mentioned that he "had to fight like crazy" with local officials for the right to expand his employees' workweek from 40 to 50 hours thereby avoiding hiring an extra shift. Sheraton's Jensen had similar problems; "The Bulgarian government wanted me to hire one person just to pick up empty bottles in the hotel. At first, no other employees were allowed to do that." Eventually, both Chytil and Jensen got what they wanted, but both they and others warn that joint ventures must be willing to compromise when seeking flexibility from external and internal pressures.

E. FIRING

Except during the start-up phases of the consumer-service joint ventures, there was surprisingly little staff turnover in the joint ventures analyzed. In large part this is a result of competent hiring, the favorable benefits accorded to joint venture employees, and the afformentioned self-selection process. Yet in the few cases where unsatisfactory joint-venture employees have remained, the situation becomes considerably more complicated. While all operators said that firing was possible, few had done so, and in no cases were there large-scale layoffs. Internal pressures, as well as government guidelines, often hindered the termination process. Because of this, joint- ventures' abilities to fire employees seem to hinge on the will and determination of management to make the move, and on the Eastern Director's ability to carry out that decision.

Joint-venture managers mentioned that they receive pressure against firing joint-venture staff from all sides; other employees, the public and especially Eastern government officials. While the termination process in Bulgaria, Poland and Hungary seemed looser than in the Soviet Union or Czechoslovakia, with a few exceptions it was viewed as a very difficult and touchy subject. "You have to prove that they stole something," mentioned one Western manager. Because of such tensions, this manager and many of his counterparts often use less direct methods than firing to sever the relationship between the joint venture and the employee; "We've learned to force people out," he explained. A Soviet manager using similar methods seemed unfazed by the constraints on outright termination; "Coercion," he says, "can be very effective."

Part of the difficulty encountered in firing is that except in Poland and Hungary, joint ventures are responsible to find the terminated employee a new job to his satisfaction. As mentioned, sometimes the employee can be sent back to his former employer, but this is not always easy, even when that employer is the Eastern partner. And while host-countries are only now establishing unemployment insurance systems, most have mandated severance pay systems. These regulations, like most which are dictated by general host-country labor law, are in a state of flux due to the political and economic changes in the East and must be closely monitored.

According to partners and managers, the policy key regarding the firing of Eastern joint venture employees is to do so selectively, but with determination. When this is done the unions, local councils (in Hungary) and party officials (in Czechoslovakia) that must be notified often put up a minimum of resistance. "I haven't fired many," says Interquadro's General Director Weinberg, "but when I do it, I do it with the speed of light." Weinberg mentioned, however, that confidentiality breaches, and not incompetence, were his major grounds for termination. Often, when the determination to fire on the grounds of incompetence is made, the initiative comes from the Western side, especially in the consumer-service joint ventures. Regardless of how the policy decision to terminate an employee is made however, in no cases did Western managers or shareholders directly fire Eastern employees. Instead, it was Eastern managers, because of host-country sensitivities, who were fully responsible for the firing of the Eastern joint venture employees.

F. TRAINING

Despite the desire on all sides that East-West joint ventures play a key role in training Eastern employees in Western business skills and the ways of the free-market, actual results in this area have been mixed. Certainly, joint ventures have helped to transfer some modern technical skills to the East as well as to train many Eastern citizens in some of the operational facets of modern Western consumer-service businesses. Many joint ventures, as well, have used host-country government aided training opportunities to improve hiring, product quality and profits. Ultimately however, joint ventures may be too isolated within the larger controlled economic systems to be relied on to capably train Eastern citizens in such areas as accounting, finance, marketing, and overall free-market organization.

Of the case studies analyzed, approximately two-thirds held some formal training for their management and lower-ranking employees, and ten of the twenty sent some hand-picked Eastern employees back to the Western home-country for training. These workers, in turn, were relied upon to train their fellow Eastern joint-venture employees back in the host-country. In most cases, Western trainers were also brought in for short intervals.

A few joint ventures, building on their host-country government's desire to upgrade its workforce, innovatively used the existing power structure and the centralized economic infrastructure in their training efforts. Some examples:

- In Bratislava, the government placed a closed-down textile factory complete with its former employees at the disposal of the Avex joint venture for its video-recorder production. As part of the initial joint-venture contract, the Western partner Phillips was paid hard currency by the Czech government to spend a year re-training many of these workers for the joint-venture's consumer technology production. After eight months of activity, 170 of the initial 190 re-trained employees were successfully working with the joint venture and the government had avoided a potentially difficult unemployment problem.

- In Poland, Hanna-Barbera has set up an exclusive contract with the renowned Polish Academy of Fine Arts to train artists for its joint venture. The joint-venture partners have been able to design a training program to their specifications, with a minimal initial capital investment.

- In Bulgaria, the government has given the Honeywell-Systematics joint venture unusual leeway in overall personnel policy because of the perceived benefits of the joint-venture's excellent high technology training center there.

Despite these examples, however, few employees, even at the managerial level, were given any type of overview either of the Western company or of more generally transferable free market economic operations. With training costs high, and start-up difficult, broader training is usually delayed. As AES-PRIS's Govoryutkin explains; "Perestroika demands technical and managerial expertise. Unfortunately, the latter must wait." Instead, most joint ventures trained their Eastern employees only in skills specific to the roles that they were asked to perform. And due to profit and expediency considerations, the most critical free-market business roles such as export-marketing and quality control (which are also the most foreign in the East) are often given to the few Western representatives with experience in these areas.

Partially, the problem also lies in the fact that many Western companies simply do not view their East-West joint ventures as similar to their other enterprises. Thus, they may not attempt to implement the same type of management systems and control mechanisms which in turn limits the training possibilities and experience of the joint venture's Eastern employees. When, for example, the Eastern Financial Director of a long-standing and profitable joint venture asked for standard home-company turnover goals and quotas he was rebuffed. "We are making money for them," he complained, "yet we're still treated like stepchildren."

Further limiting training possibilities are host-country government regulations and conditions which make joint venture operation as a truly free-market company almost impossible. Because, for example, all Eastern host-countries demand that joint ventures use planned economy accounting systems, Eastern employee opportunities to learn and use Western control systems are limited. Similarly, with hard currency and banking systems still tightly held by Eastern governments, training in Western financial management methods is almost impossible. And while some joint venture managers can help to create an open "Western" feeling in joint ventures, their daily operations for the most part must necessarily be a hybrid of Western and Eastern systems in order to handle the internal and external tensions of operating in a distinctly non free-market environment. Until the host-countries' overall economic systems move further toward the free-market, East-West joint ventures can not be counted on as a major training ground for Western business techniques.

VII. CONCLUSIONS

With the economies of Eastern Europe and the Soviet Union in transition from the still strong influence of their planned economic past to their efforts to become more free-market oriented, East-West joint ventures are challenged to find the difficult operational balance between these stages. Joint ventures must be autonomous enough to shield themselves from the pervasive external social and political tensions, while at the same time maintaining good outside relations with the public, government officials and suppliers.

Inside these joint enterprises, new and more flexible business structures must be established, while still recognizing the limitations presented by incomplete infrastructures and few training opportunities.

To attain such a balance, joint ventures must put stock in what are likely the most reliable assets in the East's tumultuous business climate: independent and innovative joint-venture employees. While governments fall, laws change, and old attitudes give way to new, competent workers, especially at the managerial level, can provide a consistent anchor for joint-venture operations. Because of this key role, joint venture partners, especially those in the West, should be more active in personnel matters. Specifically, they must: 1) seek out entrepreneurial Eastern managers who are as loyal to the joint venture as they are to those in power at the moment; 2) find employees that understand the rewards and benefits of a market economy and believe in the joint partnership and; 3) recognize the myriad of pressures on daily operations and the need for flexibility in such operations.

For Western partners, such focus can help to balance power and in some cases even allow them to control the joint venture – this despite a lack of majority equity ownership and sometimes without any full-time Western employees. In a few joint ventures in Poland, Hungary and even in the Soviet Union, operators on both sides involved noted that all major decisions were made by the West. This was achieved either because the Eastern partners intentionally took a back seat or because operations were controlled by managers that tried to model their enterprises after Western businesses or looked to the West for overall guidance. While such instances were not the rule, the point remains: daily operations can make or break joint ventures, and employees, not ownership percentages, determine those operations.

Looking to the future as most East-West joint ventures move beyond early operational phases, internal and external pressures are likely to remain strong. After start-up, joint-venture growth often creates added bureaucratic levels and makes personal interaction and problem solving more difficult. Says Symbol's Michael Levit "With the changing situation in the (East), small and medium-sized joint ventures are definitely more flexible and much easier to operate than larger ones. In smaller joint ventures, there aren't as many forces vying for influence and when you do have problems you can usually straighten them out person to person." Developing joint ventures will also face added managerial and personnel pressures as they move from simple cooperation methods like service, installation and assembly to more complicated technology transfer and production methods. "Things are going fine now," said one General Director about a rival joint venture, "but they may not be so happy with their workers when they start trying to produce those black boxes from scratch instead of just installing them."

Finally, while most operators mentioned that the larger a joint venture becomes, the more closely it is watched by the government and the public and, thus, the more it is subject to external demands and jealousies, opinion was mixed as to how these external pressures would develop in the future. Many felt that public and government resistance to joint ventures and free-market reforms in general would abate within a few years in Poland, Hungary, Bulgaria and Czechoslovakia. Few, though, were as sanguine about the possibilities in the Soviet Union with many suggesting that the environment there would get worse before it gets better. Regardless of the country, however, over the next few years change will be an important constant for joint ventures throughout the former "East Bloc;" change in host-country citizens' and officials' opinions, change in their acceptance-levels, and change in their knowledge of free-market structures. Operators that stay aware of the human factor, both inside and outside of their joint enterprises, will have a leg up on these future developments.

APPENDIX: JOINT VENTURE CASE STUDIES USED FOR THIS REPORT

COUNTRY	JOINT COMPANY	YEAR FOUNDED	MAJOR EASTERN PARTNER	MAJOR WESTERN PARTNER	%EQUITY SHARE EAST-WEST	NO. OF EMPS E-W	TYPE OR BRANCH OF ACTIVITY
BULGARIA	APV BIONINVEST	1985	Bioinvest	APV Paracal (UK)	55%-45%	9E OW	Consulting and engineering in biotechnology and food services
	FANUC MACHINEX	1981	ZMM Production Enterprise	Fujitsu Fanuc (Japan)	50%-50%	E 2W	Service and Maintenance of CNC systems for machine tool industry
	SHERATON BALKAN*	1986	Interhotel Bulgaria	ITT-Sheraton (USA)	NA	536E 8W	Hotel operation via management contract
	SYSTEMATICS	1984	Chemical Ministry	Honeywell (USA)	60%-40%	25E OW	Design, engineering and marketing of automated control systems
CZECHO-SLOVAKIA	AVEX	1987	Tesla Consumer Electronics	N.V. Phillips (Netherlands)	80%-20%	350E OW	Production of videorecorders and cameras
	TESSEK	1987	Tesla Laboratory equipment	AS Senatek (Denmark)	51%-49%	120E OW	Production and marketing of liquid chromotography equipment
HUNGARY	BABOLNA MCDONALDS	1986	Babolna Agrarian Combine	McDonalds Corp (USA)	50%-50%	420E OW	Restaurant Operation
	OTP-PENTA TOURS	1983	Hung. National Savings Bank	Penta Tours (Austria)	60%-40%	74E 1W	Tours and Travel Agency
	SICONTACT	1974	Remix Radio Technical Corp	Siemens AG (FRG)	51%-49%	115E 1W	Computer sales, service and software development
POLAND	HANNA-BARBERA	1987	PP Studio Bielsko Biala	Hanna-Barbera Productions (USA)	51%-49%	90E OW	Animation and film production
	ITHK	1987	Kosciusko Steel Mill	Industrie Tech. Walzwerksanlgn. (FRG)	51%-49%	360E OW	Processing of metallurgical wastes
	LIM	1987	LOT Polish Airlines	Marriot Co. (USA) Ilbau Constr. (A)	52%-48%	1000E 10W	Build and operate airline terminal, hotel and office space
SOVIET UNION	AES-PRIS	1987	Petrochemical & Oil Ministry	Combustion Eng. (USA)	51%-49%	45E 5W	Service and manufacture of CNC systems for petrochemical industry
	DIALOG	1988	KamAz Factory	Management Ptnrs Int'l (USA)	79.2% 21.8%	600E 2W	Service and assembly of personal computers and information systems
	INTERQUADRO	1987	Moscow Aviation Institution	Amiral Utec (FR) Delta Trdng (IT)	75%-25%	170E 2W	Service and assembly of personal computers and information systems
	PC WORLD USSR	1989	Radio I Sviaz Publishing	Int'l Data Group (USA)	51%-49%	20E 2W	Computer magazine production and publishing
	PERESTROIKA	1988	Mosinzhstroy Eng. & Cnstr. Entrprs.	Delphi Int'l Grp (USA)	80%-20%	8E 1W	Office and apartment building construction and renovation
	PETROVOITH	1988	Petrozavodsk Machine Entrprse.	J.N. Voith AG (A)	51%-49%	9E 2W	Develop and manufacture machinery for paper and pulp industry
	SYMBOL	1989	Cooperative	Story First Entertainment (USA)			Clothing design and production USSR and Western markets
	SPORTHOTEL GUDAURI	1988	Georgia Tourism Ministry	Austrian Tourism Consultants (A)		111E 1W	Operation and marketing of ski resort
	STERCH CONTROLS	1988	Fertilizer Prod. Ministry	Honeywell Corp. (USA)	51%-49%	48E 2W	Service and manufacture of CNC systems for fertilizer industry

Sources: Interviews and **East-West Joint Ventures**, the Economic Commission for Europe, United Nations, New York, 1988. All information is as of the date of interviews.

* not a joint venture
** in formation