3 Post-1989 Transformation of Škoda Auto

The collapse of state socialism in Czechoslovakia in November 1989 resulted in an immediate shock for Škoda. Because of the persistent labor shortages so typical for the centrally planned economy, resulting from its inefficient use of labor, Škoda had to increasingly rely on forced labor and foreign workers in the 1970s and 1980s. It built a prison right behind the border of its factory in the 1970s. By the late 1980s the company employed up to 1,600 convicts and 1,520 Vietnamese workers. Convicts worked in the most outdated shops such as the metallurgy, press and mechanical finish. They accounted for almost 90% of employees in the press shop, for example. All convicts left suddenly after the presidential amnesty in early January 1990. Škoda was paralyzed. The Favorit assembly line slowed from the daily production of 212 cars on January 2, 1990 to 57 cars on January 3 and it stopped completely on January 4 when no cars were made. The situation led to massive losses for Škoda and a hasty reorganization within the factory. However, newly employed (including 230 soldiers) or inexperienced workers transferred from other assignments within the factory could not quickly achieve the desired pace and quality of production (Kožíšek and Králík 1995:185). As a result, Škoda’s financial losses and its massive debt continued to accumulate throughout 1990 reaching 7 billion Kčs (251 million USD) by the time of its privatization in early 1991 (Charap and Zemplinerová 1993:123).

3.1 Privatization

Already in the 1980s when the Favorit was being designed and its production launch prepared, Škoda’s managers knew that they would not build a good car without cooperation with a foreign car maker. The idea of a foreign partner for Škoda was also floating at the Ministry of Industry in the late 1980s (Žák 1999:19). However, the idea of a joint venture (JV) with a foreign car maker could be seriously considered only after the collapse of state socialist government in late November and early December 1989. In the late 1980s, Škoda was unable to satisfy the domestic and foreign
demand for its automobiles. Its production capacity was about 180,000 cars annually.\footnote{Škoda’s production capacity was increased to 850-900 units daily shortly before its privatization (Charap and Zemplinerová 1993:138).} Domestic demand was estimated at 250,000 units annually but Škoda supplied only 130,000 units in Czechoslovakia and 50,000 units were exported. It was estimated that an increase in annual output to 350,000 cars would require an investment of 23.5 billion Kčs (Hradil 1990). Already laden with a heavy debt burden that continued to grow every day, Škoda could not finance any production expansion and was unable to acquire outside loans. It did not even have enough capital to finance its day to day operations and pay for supplies of components. Škoda’s insolvency threatened not only its future existence but also the existence of its 237 domestic suppliers. The car maker could not rely on the government to pay for the necessary production expansion. A foreign partner was, among other things, expected to supply the investment capital necessary for the expansion of production. Additionally, Škoda desperately needed to improve the quality of its cars and to become profitable, which required further capital investment. A JV with a strong foreign partner thus seemed to be the only plausible solution that could save Škoda from going bankrupt in the 1990s.\footnote{The government also considered the outright sale of Škoda to a foreign partner instead of forming a JV. Other options were also considered: government-financed restructuring that would lead to increased profitability. Škoda would be then privatized under more favorable conditions. Another considered option was a bond issue to raise capital for Škoda, but neither the government nor the banks were willing to guarantee it (Charap and Zemplinerová 1993:123). Škoda’s situation seemed to be so desperate that the federal Forecasting Institute proposed abandoning passenger car production altogether in Czechoslovakia in favor of producing automobile components for foreign car-makers (Calbreath 1995:7).}

The first unofficial contacts between Škoda and Western car-makers regarding a potential JV were apparently established already in December 1989. The public tender to privatize Škoda was announced in early 1990. Twenty-four foreign companies registered to participate but only eight revealed a serious interest in Škoda (including BMW, GM, Renault-Volvo, VW, Ford, Fiat and Mercedes Benz). This relatively wide-ranging interest in Škoda by foreign car makers suggested their eagerness to expand into CEE as a potentially new major market for passenger cars. It also suggested that despite its problems Škoda was perceived as a relatively successful company, given the state socialist circumstances in which it had had to operate for the past forty years. Foreign car makers thus believed that Škoda could be successfully used as a bridgehead to CEE markets.