5 Effects of Domestic Privatization in the Auto Components Industry

Privatization of formerly state-owned enterprises (SOEs) has been considered one of the most important issues of post-socialist economic transformations into market based economic systems in CEE. Privatization of all economic sectors (i.e. industry, agriculture, services) and the development of the private sector in the economy was the central element of all economic “transition” plans. According to the liberal view, the “transition to capitalism” would fail without successful privatization and development of the private sector because a market economy cannot function properly without private ownership (e.g. Claudon and Gutner 1992, The Economist 1991). In the early 1990s CEE governments prepared conditions for the development of private capital by establishing private property rights and legalizing private ownership. New laws were put in place to equalize tax treatment with state-owned firms, remove restrictions on private firms’ size and activities, free private procurement and distribution, and reduce bureaucratic requirements for establishing new firms (Gelb and Gray 1991). While these governmental policies supported the development of new small-scale private enterprises, they did not solve the problem of privatization of the SOEs.

A major discussion emerged around the techniques, speed and time frame of privatization of SOEs. The selection of privatization strategies typically represented one of the most controversial issues and a major point of contention between the supporters of radical approaches and those who advocated a gradual, more evolutionary development of private enterprise ownership. Slow privatization strategies emphasized the need for the state to restructure SOEs before selling them. Critics of slow privatization

1Hungary had about 2,300 SOEs, Poland 7,500, former Czechoslovakia 4,800, Bulgaria 5,000 and Romania 40,000 (The Economist 1991).

2See Frydman and Rapaczynski (1991) for a systematic approach to the problem of privatization in CEE. According to their approach, a privatization plan had to satisfy four requirements in order to have a chance of success: speed, social acceptability, effective control over the management of privatized enterprises, and assured access to foreign capital and expertise.

stressed, however, that while it would create real enterprise ownership, it would take several decades before it could be completed. In contrast, fast privatization strategies assumed that rapid privatization of SOEs would quickly create the private owners who would then not only oversee effective enterprise restructuring but also protect the political and economic changes set in place after the collapse of state socialism. In neoliberal and neoclassical economic approaches, private owners are considered to be the best judges of enterprise long-term development needs, much better than any state ministries or agencies (see for example Adam 1993:639-641; Myant 1996:141; Mejstřík et al. 1997a).

This chapter considers whether neoliberal assumptions about fast and mass privatization strategies that drove practical privatization policies in Czechia in the early 1990s delivered expected results in the automotive components industry. The most important question the chapter investigates is whether domestic privatization has led to effective enterprise restructuring. A number of empirical studies have tried to investigate the effects of Czech privatization strategies on enterprise restructuring and corporate governance. Gray (1996), for example, concluded that well designed voucher privatization may best meet the objectives of feasibility, governance, fairness, and institution-building. Hoekman and Pohl (1995) believed that Czechia has done best in restructuring its industries and reorienting them towards the West among the CEE countries because the country had pursued mass privatization most actively and credibly. Based on the empirical study of a cross section of 706 firms for the period 1992-1995, Claessens et al. (1997) argued that mass privatization had improved firm management because it had created a concentrated ownership structure. They also contended that the banks, with their indirect equity stake in privatized firms through their investment funds, had had a positive influence on the firms' corporate governance. Thus they believed that, despite the initial scepticism and critique of the role of large bank-sponsored IPFs in the privatized companies, this type of institutional ownership was beneficial to companies. Similarly, Frydman et al. (1997) argued that IPFs did as well as any outsider owners in terms of enterprise restructuring following privatization. In particular, they found no evidence that funds were less effective than "strategic" investors.

These views are in contrast to those arguing that privatization did not lead to large scale enterprise restructuring (e.g. Simonson 2000). The most critical analyses of enterprise behavior after privatization are those drawing on evolutionary and institutional economics. In the Czech context they are mainly represented by the work of Mlčoch (1997, 2000a, 2000b).

The primary information presented in this chapter is based upon in-depth interviews conducted by the author with directors or top managers of