Editorial

Privatization

Privatization is a concept taken directly from the ancient wisdom of the Bible: "*Then said Jesus unto the Jews: I am the good shepherd: the good shepherd giveth his life for the sheep. But he that is an hireling, and not the shepherd whose own the sheep are not, seeth the wolf coming, and leaveth the sheep, and fleeth.*"

Why would anybody wish to "improve" upon such wisdom? Why would anybody desire to make "hirelings" not only from some employees but even from entire nations? Eastern European nations are in a great danger of becoming "hireling" nations – the seeds of future economic troubles and political storms are being sown again.

Private owner takes better care of his sheep and the motivation of a hired hand is, *ceteris paribus*, always inferior to the motivation of an associate, co-owner or employee-owner.

Private ownership works best if it is concentrated in the hands of a few and if only minimal or limited number of hired non-owners has to be relied upon. This is a dilemma. Public ownership is too scattered and atomized, with limited personal involvement and too short an outlook. Single owner has a problem with relying mostly on hired workforce, often ending up as the only reliably motivated person in the company. Striking the right balance is a long-term and often unappreciated challenge of privatization. Small number of owners-employees, would be ideal. In large corporations this is achievable only by introducing autonomous departments and businesses: plants within plants, factories within factories – in the spirit of the Bat'a-system of management.

Where only simple labor is to be performed, with little responsibility or risk on part of the employee, single owner, command hierarchy and hired labor will suffice. Where knowledge work is needed and knowledge employees have to undertake initiative, responsibility and risks, then a multi-owner heterarchy with only limited number of hired employees is now virtually a must. Global competition is now taking place, almost exclusively, in the domain of brains and not muscles. The "Working harder" does not cut it anymore; it is the "Working smarter" that often wins the hands down.

Privatization is also the most important concept in Central Europe's economic reform and reconstruction. It is therefore surprising that the West, in its solicited and unsolicited advice, is often treating privatization as one of the future "steps", one of the later measure to come only after price liberalization, stabilization of currency and a host of bureaucratic decrees. Yet, privatization is the key, it comes first and all the rest simply follows. Liberalizing prices for those who are not owners of their enterprise can lead only to price maximization: there are no markets and "liberalized" prices do not make them happen.

Unfortunately, privatization is being dangerously misunderstood, misused and misinterpreted also by the ex-communist reformers. Their view of privatization ranges from naturalistic distribution of "coupons" and state-controlled holding companies to outright foreign sellouts (like the famous Skoda works) and public companies with state participation or dictate. None of this is, of course, privatization.

There are two privatization schemes which do have a chance to succeed in Central Europe, only if the ex-communist reformers, hitched on IMF, would clear out the space for them. Mr. F. Čuba, chairman of the DAK MOVA Slušovice (one of the most successful national companies in Central

IOS Press
Human Systems Management 10 (1991) 161–163

Europe) is proposing and also practicing real and concrete privatization concept, called "credit privatization". It is important to note that MOVA is operated only a few kilometers from Zlín, the original site of the original Bat'a Enterprises of the 20s and 30s, where the famous Bat'a-System of Management had been evolved. The *genius loci* is unquestionably present in Southern Moravia in the field of world-class management.

MOVA Slušovice has just completed its own corporate and regional bank (Bank of Moravia) as a private finance, investment and accounting center for entrepreneurship and privatization support, for the development of national capital and national capitalists.

The Bank of Moravia creates Financial Consortium which secures foreign loan and initiates establishing local private companies led by small groups of most able entrepreneurs and managers.

The bank then offers these new companies the necessary loans for purchasing the existing plants and for their outfitting with new technologies. The management of each company is then repaying the loan from current profits and thus gradually gaining the full ownership of these companies and their assets. The Financial Consortium maintains economic pressure on the effective functioning of these companies.

Another and related approach is the OTC (Ownership Transfer Corporation), propounded by Shann Turnbull, which is another mechanism for gradual transfer of ownership to local private entrepreneurs with the full utilization of foreign capital, management and investment. Without the needless and irreversible sellout (like Skoda to Volkswagen), the foreign investor recoups his entire investment plus profits within 10–15 years, while transferring part of the ownership back to managers and employees with each such withdrawal of dividends.

OTC is based on two categories of stock: one for investors, the other for stakeholders. Stakeholders are mainly employees, suppliers, customers and the host community. The OTC by-laws specify that all and full rights of investore stock would gradually, within a specified period of time, fade-out in favor of the stakeholders. This ownership transfer would not begin until after investor's time horizon for investment payback plus profits.

OTC puts the decision to re-invest corporate cash-flows under the control of stockholders rather than management, assuring more rational distribution of investments in the economy. Local ownership and control maximizes the long term view and minimizes ecological damage and exploitation. The periodic recapitalization of enterprise exposes collectively owned resources to market forces.

To raise additional funds to finance their growth, OTC's would create *corporate offsprings*. These corporate offsprings would be more attractive than the parent for investor stockholders to re-invest their dividends. As a result, the size of corporations would be much smaller and their number much greater. This kind of privatization is therefore closer to the "ideal", in terms of competitiveness, market forces and small groups of definite owners.

Following R. Tricker's study (in *Human Systems Management*) [2] of re-designing the corporate concept, both Credit Privatization and OTC-Privatization extend the possibilities and form quite extensively. Also, they are custom-made mechanisms and fitted-for-use in Central Europe and even USSR. It is quite surprising that, for example, the government in Czechoslovakia is now doing everything possible to avoid any real and useful privatization. Instead, the State actually sells, at public auctions and for cash (!), what it does not own, i.e., the properties which were stolen or confiscated by the State without *any* compensation to the original owners. Such concept of "privatization" is hard to imagine at the end of the twentieth century – yet, it is real and it is taking place with the "blessing" by the West.

The population of course does not want to pay dearly and again for its own stolen property. Its interest in humiliating public auctions for cash is virtually non-existent: in March 1991, three months after the start of this so called "small" privatization, only 18% of citizens were interested in auctions (2% as potential buyers, 16% as spectators). Full 77% did not wish to participate at all and some 5% had no idea what was going on.

The problem is that if citizens do not buy their own confiscated properties again, the State immediately starts selling them to the foreigners. In addition, the State appears to be determined to carry on with its incredible and bizzare so called "great" privatization through naturalistic distribution of investments "coupons" to the general public. After only six months, if citizens do not buy it, also these properties go directly and cheaply to foreign speculators. The State keeps full 30% of shares of all "privatized" properties. This can only be characterized as an absurd theatre of our times.

References

[1] F. Čuba and E. Divila, "Concept of Credit Privatization: On the Possibility of Entrepreneurial Renaissance in Czechoslovakia," *Human Systems Management*, 10(1991)3, pp. 187–193.

[2] R.I. Tricker, "The Corporate Concept: Redesigning a Successful System," *Human Systems Management*, 9(1990)2, pp. 65–76.

[3] S. Turnbull, "Re-Inventing Corporations," *Human Systems Management*, 10(1991)3, pp. 16

Milan ZELENY
Graduate School of Business
Fordham University at Lincoln Center
New York, NY 10023, USA