

## **PRODUCTIVITY CENTRES EAST OF THE ELBE**

How are the recently established productivity centres in the transition economies of central and eastern Europe doing? And what can they learn from one another and from western European centres, particularly as regards their 'product mix' and 'institutional development'? These were the subject of the Association's fourth 'Productivity in Economies in Transition' seminar organised by the Hungarian Productivity Centre in early May, 1999.

### **The general economic situation**

The relative productivity levels of central and eastern European economies were shown in data provided by Slovak Productivity Centre. They indicate that the levels are anything between 5% and 20% those of the countries of the European Union. Further analyses demonstrate that, despite very low labour costs, these economies are only competitive with those of the European Union in a very small range of industries, such as - in the Slovakian case - raw materials and low value added final products. Moreover, their exports are highly dependent on price competition since the quality of their products is low. So what are governments doing to reduce the productivity gap?

### **Czech Privatization, Enterprise Restructuring, and Productivity (Marie Bohata)**

Corporate economic reform and privatization has taken place in the Czech Republic. But it has been foreign investors which have attached importance to raising productivity: the productivity level in foreign-owned companies is currently 41% above the average domestic level.

This indicates that a considerable amount of restructuring still has to take place in most Czech companies. This unfavorable situation has resulted from "fictitious privatization" (a significant share of ownership, directly or indirectly, remains in the hands of the state), privatization to owners who lack a long-term commitment, a still insufficient number of declared and executed bankruptcies and the slow privatization of the banking sector.

Dispersed ownership, which resulted from mass privatization, has not been a successful model. The economic rationality of ownership concentration, which started to take place after the completion of voucher privatization, is obvious. On the other hand, this process, which was started in the name of freedom, democracy and the market economy, led to the concentration of power in the least accountable institutions. This leads to two negative tendencies:

1. Transfer of wealth to irresponsible owners
2. Marginalization of individuals and small investors.

Thus, ownership concentration has not been a strategy aimed at creating partnership relations, facilitating restructuring, and improving productivity and competitiveness. The most recent developments, however, indicate a change: major companies seem to share the view that improved corporate governance is a precondition

- for access to (international) financial markets
- for enhancing competitiveness
- for EU accession.

There are clear signs that Czech companies are recognizing a need to identify "best practices". Best practices in promoting good corporate governance seem to be also favored by the government that is assuming a more active role in exercising ownership rights. Similarly, enhancing professional awareness and introducing adequate control mechanisms is being supported by the Czech Securities Commission.

Productivity enhancement lies at the core of the economic strategy which will go through the joint assessment procedure of the European Commission and Czech Government. One particular issue deserving attention is the so called "Revitalization

Programme" of the Government which was approved in the spring of 1999.

### **Centres' environments**

Not all countries are as advanced as the Czech Republic. The problems facing eastern European economies overall find their extremes in Moldova and Ukraine. There, enterprises are still faced with factors inherited from the Soviet era:

- too many resources bound up in large loss-making enterprises
- outdated equipment with virtually no process nor product flexibility
- loss of traditional inter-republic markets and cooperation links
- weak financial discipline (ie. neither invoices nor salaries are paid on time)
- inadequate managerial skills to cope with change (cronyism still pervades society).

The results are that Moldovan enterprises have low working capital productivity, high dependence on energy, and very high overhead costs. What is needed is quality assurance, product design, customer involvement, and supply chain management, all of which can only be achieved with extensive external help.

In the direct environment of productivity centres - to take the Ukrainian example - the main problems encountered are:

- a general lack of finance: government departments do not necessarily pay for contracts they have requested and for which they have received reports; workers (average wage ± \$35 per month) and pensioners (± \$ 13 a month) remain unpaid often for several months
- a large proportion of the population depends on the state: because of the low average age of retirement (from 42 years), there are almost more pensioners than active population
- a lack of consciousness and awareness of the importance and nature of raising productivity
- an unstable legal and political situation: corruption is widespread, which kills entrepreneurship

- very high taxes for bodies which cannot avoid paying them and considerable tax avoidance
- inflexible labour laws: the costs of firing staff are higher than keeping staff in 'jobs' where they have virtually no work

As in all other economies in central and eastern Europe, the lack of education and training in modern manufacturing techniques and strategies constitutes a serious handicap to raising productivity, the more so since managers' and workers' mindsets remain slow to change.

### **Learning under communism (Zoltan Roman)**

Even when the Iron Curtain was at its most impenetrable, international contacts took place, the former President of the Association reminded participants: In the 1950s productivity comparisons were made between Federal Germany, Austria and Yugoslavia. Bi-lateral comparisons (for instance between Czechoslovakia and France, Austria and Hungary) were 'quadrilateralised'. Comecon - the 'common market' of Soviet-controlled Europe - set up a working group making inter-country comparisons, out of which the USSR often had better results than seemed likely. And the UN Economic Council for Europe acted as a quiet forum for undertaking studies and learning about the functioning of other systems. Several of the post-1989 reformers worked in these circles.

Through these contacts centrally-planned economies were aware of the productivity approaches of the market economies, including market failures. However, the approaches in question were, by and large, dependent on the environment. Major systemic differences made adopting and adapting them very difficult for the Comecon countries: there was no substitute for market competition; there was no way to combine, meaningfully, the components of the two systems; the planned economies' dogma of full employment led, in fact, to significant amounts of hidden employment; and there was no real understanding of the inter-related roles of increasing productivity and profitability.

Nevertheless, the idea of establishing productivity centres in socialist countries was experimented with: the Yugoslavs were a founding member of the Association ; the Czechoslovaks joined in May 1968; the Hungarian Academy of Sciences with its institute for industrial economics joined one year later; Rumen Yanakiev established the Bulgaria Labour Productivity Centre in 1973 (but then got into trouble because he translated 'Parkinson's Law' into Bulgarian - Editor); ... Indeed, until Comecon collapsed, the European Association acted as a useful, though unobtrusive, link between 'eastern' and western Europe.

But it has only been in the 1990s that more consideration and action has been given to establishing productivity centres. Western European experience in disseminating knowledge about improving productivity did not augur well: centres were unable to involve various societal actors, especially the social partners, in their actions; they had difficulty in spreading good practice; they were unable to help smaller firms and were restricted in their attempts to foster start-ups; they dabbled in a range of areas

(management development, training, technology, innovation, industrial democracy and structural change) but mastered none; they remained preoccupied with their financing where state funds supplemented by market-generated income has not proved successful; and centres' small size and organisational flexibility has had both positive and negative sides.

### **The Hungarian Productivity Centre (Laszlo Cserensky)**

The leading proponent for productivity centres in eastern and central Europe has been the Japanese government. Having previously launched a productivity programme for Russia, it offered technical assistance (\$25 m) to Poland and Hungary in 1990. This money was earmarked for sending Japanese corporate productivity experts to Europe (both on long-term and short term problem-solving assignments), training Polish and Hungarian consultants in productivity in Japan, and providing the two countries with training-related hardware and software.

During five missions to Hungary to assist corporate productivity improvement, the Japanese concluded that lack of motivation among Hungarian workers was a - perhaps 'the' - key factor in the country's poor productivity performance. Thus the agreement between the two government signed in 1994 on the establishment and first five years of operation of the Hungarian Productivity Centre (HPC) specified that it should focus - with the support of Japanese expertise - on motivation and skills' enhancement by teaching and the dissemination of corporate best practice. Assistance has consisted of equipment, the provision of 5 long-term experts (5 years) and 6-7 short-term experts annually in Hungary, and 3 Hungarian counterparts trained annually in Japan.

During its five years of existence, explained HPC's CEO Róbert Verese gyházy, HPC has spent considerable time acquiring productivity know-how from its Japanese experts. Part of the training was gained through company projects, which have also generated some income - a top priority for the Centre's board of trustees. Another approach to transfer knowledge from early on has been to run open training courses. Initially the Hungarian counterparts acted as interpreters, but they have gradually become independent developers of training course material as well as trainers and lecturers. HPC defines productivity as a *'concept which seeks the continuous improvement of economic activities by the optimal use of all resources with a view to satisfying, in a balanced way, the requirements of all stakeholders involved in the process of creating value.'*

HPC is one of a network of government-funded technology transfer institutions including the Logistics Centre, the Quality Centre and the Technology Centre. One of these is the *Foundation for Enterprise Promotion (MVA)*, described by Szilvia Honti. It has 150 local enterprise agencies (and sub-offices) throughout the country to support small and medium-sized enterprises. Like similar agencies in EU countries, LEAs provide a range of services from helping to develop business plans, through technical assistance to the provision of property and development funding. Its prime mission, however, is to help create the right conditions to enable smaller firms to be competitive when Hungary enters the European Union. Particular attention in this respect is paid to ensuring that a

greater number of Hungarian enterprises become suppliers of multinational companies, for which a national sub-contracting programme was launched in 1998.

### **Poland** (Jerzy Donarski)

The Polish Productivity Center, having started with JICA support, has been operating independently since 1996, albeit under governmental threat of liquidation (it has not received governmental financial support since the completion of the JICA project). It runs a variety of training courses, which have reached more than 800 enterprises, and 16,000 managers, workers and union officials representing 50 percent of the country's total industrial potential. The Leader programme trains a cross-section of the 'crew' of companies. Other courses are for small and medium-sized firms and study missions abroad. The Center propounds a 'new culture of work' based on Catholic doctrine enunciated by the Pope in November 1996.

The Centre's 'productivity promoters programme' is for company company consultants, enabling the companies to develop and start to implement a 'Quality, Delivery, Cost/price, Flexibility' programme. The Centre has also prepared (1998) an 'economic understanding' programme for the 16 provincial governments of Poland.

### **Slovakia** (Milan Gregor)

The Slovakian Productivity (SLPC) was set up in 1998 at Zilina University-a region of both manufacturing and top quality research towards the centre of the country-with the support of the ministry of economics and the employers' federation. The Centre can even draw on the 1930's experience in work organisation of the Bat'a shoe factory, which continued to be influential under communism.

SLPC attaches particular importance to enhancing communication and collaboration among the representatives of governmental and local administration, employers and employees, trade unions, trade associations and chambers of industry and commerce. Its tasks are both to prepare and to propagate concepts, notably the understanding of the productivity dynamics of the economy, to adapt productivity tools to national conditions, to draft a national programme for productivity and competitiveness, to act as an educational centre for training managers and trade union activists, and to make productivity awards.

Although many Slovakian companies have been ISO 9000 certificated, this has not led to any appreciable increase in their quality performance. Past experience indicates that protectionism will provide no sustainable productivity-enhancing advantage. SLPC has also close connections with the VW auto plant near Bratislava which has adapted German productivity approaches to Slovakian conditions.

### **Moldovia** (Igor Fetiniuc and Marian Cuzmici)

Some 70 enterprises have been restructured in the past half decade in Moldovia with dramatic increases in the utilisation of assets and human resources, significant cost reductions, sustained ability of enterprises to meet their obligations and the creation of

viable spin-offs. Some 200 well-trained consultants have been involved. It is the purpose of the newly established (1997) Competitiveness and Productivity Centre to enhance the capacities of local managers of private and privatised enterprises from the industrial and agro-processing sectors by means of the philosophy of 'continuous improvement' in three areas:

- providing information on domestic and international benchmarks and marketing requirements;
- assisting companies to implement quality improvement programmes; and
- training and secondments for some 400 managers in central and western Europe, east Asia and North America, with feedback within Moldavia. A further programme provides for the placement of 600 Moldovan workers abroad to learn on-the-job in companies similar to their own.

A pilot project has helped implement the *20 keys system* developed by Iwao Kobayashi. This operates under the *slogan*: Better - Cheaper - Faster. Its approach is to use an evaluation of the level achieved for each key on a scale of 1 to 5. The presentation is in the form of a radar chart to assess against predetermined standards. The 20 keys cover the following areas: Cleaning and organising; Rationalising the system / goal alignment; Small group activities; Reducing work in progress; Quick changeover technology; *Kaisen* of operations; Zero monitor manufacturing / production; Coupled manufacturing / production; Maintaining machines and equipment; Time control commitment; Quality assurance; Developing suppliers; Eliminating waste; Empowering employees to make improvements; Skill versatility and cross training; Production scheduling; Efficiency control; Using micro-processors; Conserving energy and materials; and Leading technology / site technology. This serves as a basis for developing further quality and productivity programmes such as TQM, TPM, ISO, etc.

## **Bulgaria**

The Bulgarian Quality and Productivity Centre is the body authorised by the ministry of industry to coordinate technical aid to Bulgaria provided by Japanese organisations, notably JUSE (Japanese Union of Scientists and Engineers) on quality issues and JPC-SED on productivity and labour-management relations. Its activities are centred on disseminating information, carrying out training and drawing on foreign expertise to help companies develop and implement productivity improvement programmes

## **Estonia**

There is no productivity centre in Estonia, but the Federation of Estonian Engineering Industry has set up its own Productivity Committee. Working closely with the Tallinn University of Technology, the Committee focuses on measuring corporate level productivity which it considers to be the most effective stimulus to change. However, it also provides training, consultancy and information. The state lacks interest in productivity improvement, providing some \$8,000 in 1998. But overall Estonia's gaps with western Europe (as regards technology and capital, legislation, democracy, management, productivity, ...) continue to narrow rapidly as the country strives to fulfill criteria for joining the European Union.

## Ukraine

The forerunner of the Productivity Centre, the Work Standards Institute for the Mechanical Engineering Industry of the USSR, was established in 1972. Hence the Centre's location in the Donetz industrial basin of eastern Ukraine.

After the independence of the Ukraine (1991), the Institute was transformed into the 'National Productivity Centre' by a 1992 decree of the Council of Ministers. It undertook to prepare a 2-year pilot 'national productivity programme' for its sponsoring ministry of labour. However, the programme was never launched due to lack of governmental finance. Subsequently, the name of the centre has been changed, dropping 'national', an adjective which implies a special status in the government hierarchy, which it does not have. The Centre has its own training and lodging facilities, as well as a vacation centre.

The *main departments* of the Centre - which currently employs 80 persons - are

- 'labour standards' (meaning the determination of quantitative and time requirements of doing specific jobs within specific types of organisations or one specific organisation such as, currently, for the Kiev zoological gardens);
- occupational profiling, setting out the characteristics and qualifications required for a specific profession (a project currently under way is for a major bank which will disseminate the information nationally to other banks); and
- 'productivity'. However, 'productivity expertise' is not in demand by enterprises which in any case have no money available to pay for contracts.

In addition, the Centre has a support service for international relations and information systems, which produces its quarterly publication 'Productivity' (distributed in 3,000 copies).

## Help approaches

The RKW (Rainer Holzer) has had considerable experience since its early experiences in the Czech Republic, Hungary and Slovakia from 1993 and more recently in Moldova. Its approach is at the same time to train national consultants and to assist in institution building. In Moldova, local consultants - 250 so far - have been selected and given positions in the local service-delivery organisation (be it CPC or the larger Moldovan restructuring organisation). After initial training, learning takes place by their being helped in their consultancy assignments by experienced foreign consultants, working in Moldova on an on-going basis. The Moldovan consultants are stationed permanently in the company being restructured. Companies do not have to pay for the services provided from day 1, but later are required to pay full local market rates.

In the application of 'holistic' approaches to developing corporate productivity, cross-sections of the staff of companies being restructured with the help of the outside consultants are being sent to Germany. The concept of mixed study teams follows from the original EPA study visits from western Europe to the USA during the period of Marshall Aid. The numbers are not small: 1,000 Moldovan managers, supervisors and

workers are currently spending up to 2 months in German companies learning skills on the job. These people constitute the management reserve for the future.

The organisations employing the trainee consultants have to be designed around the local needs and existing structures. Just as western European countries have a large variety of institutions delivering 'productivity services', no one model exists which can be imposed and cultivated corresponding to local conditions. Each institution has to be tailor-made to the local conditions. Thus, what to one environment is a 'consultancy service' or 'training centre' is to another a 'productivity centre'. Perhaps unlike western Europe, 'productivity centres' do not have governing structures which include the social partners - which is increasingly rare in western Europe - but they do operate in a spirit of partnership.

Western Europeans can also learn from evolving eastern European experiences: for instance, the current operations of the Moldovan CPC requiring that its clients adhere to such principles as the '20 Keys' approach are also practised within the Centre to ensure that there is complete communication and transparency throughout the organisation. The situation is facilitated by CPC's being better equipped in hardware and software - which its staff actually use - than many German organisations! This also means that the opportunities provided by information technology are often being more extensively used than in western Europe, notably drawing on websites.

Also in eastern Europe new forms of cooperation are developing with common projects across borders. Currently a cross-border TACIS project is developing in the western Ukraine, making use of the common language - Russian.

Within productivity centres, it is necessary to ensure that there are enough candidate consultants and managers with not just sufficient qualifications, but sufficient enthusiasm and persistence not to be attracted out of the centre by high corporate salaries.

Sustainable projects have to be presented to sponsors being both of a sufficiently high quality and having measurable results.

### **Japanese experience**

JICA's experience in Hungary is that many companies have been very willing to adapt to the new management environment. The change process has been considerably helped by massive foreign direct investment. HPC has assisted such companies through successful training and consultancy activities.

"However, HPC's efforts may not have been sufficient to integrate such moves under the common umbrella of productivity as a national organisation, in particular the companies which are less interested in changing themselves."

And JICA's efforts to transfer technology have been stunted because of the small number of Hungarian counterparts trained and by their being poached by companies paying significantly higher salaries than HPC. With Hungary's application to join the



European Union, JICA is shifting its programme of cooperation to other countries in the region (interested parties are invited to contact the Economic Cooperation Attaché at the local Japanese Embassy).

### **In conclusion**

The future of productivity centres, according to Zoltan Roman, lies in developing programmes which take into consideration trends relating to both globalisation (the knowledge based society, environmental concerns, ...) and post-Communist society (the problems of transformation, accession to the European Union, ...). They need then to concentrate on four concerns, all if possible in conjunction with EU programmes:

- ensuring holistic approaches both as regards measurements (total factor productivity, rather than partial approaches are all important) and policy: there should be no excess concentration on large firms which generate little new employment;
- fostering cooperation among all parties having a role to play, especially social partnership;
- attaching more importance to small and medium-sized firms; and
- focusing on innovation.

All in all, experience strengthens the philosophy of the European Association's *Memorandum on Productivity, Innovation, Quality of Working Life and Employment* that the driving forces behind productivity development are the pressures of competition, the urge to innovate and the harnessing of the social forces of society overall.