

Book review by Klaus Meyer

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Foreign Direct Investment in Central Eastern Europe: Case Studies of Firms in Transition, edited by **Saul Estrin, Xavier Richet and Josef C. Brada**, Armonk, New York, USA and London, UK: M.E. Sharpe, 2000.

The Russian Capitalist Experiment: From State-owned Organizations to Entrepreneurships, by **Sheila M. Puffer, Daniel J. McCarthy and Alexander I. Naumov**, Cheltenham, UK and Northampton, USA: E. Elgar, 2000.

Case studies have a central role in the scholarly endeavour to explain new phenomena such as enterprise behaviour in transition economies. Exploratory research has to establish the features, causal relationships, and mechanisms that drive this change process. Unfortunately, in-depth case research has little tradition in economics (with exemptions such as Ronald Coase). The more welcome are research projects approaching transition economies with a case method. The novelty of many phenomena demands it. The two books under review here present original case studies, providing the raw data for qualitative analysis of enterprise transformation. The cases provide largely unbiased accounts, giving readers the opportunity, and challenge, to interpret the evidence themselves. The authors/editors limit themselves to general observations in the introduction and/or conclusion.

Puffer, Naumov and McCarthy report their case firms from the perspective of the local top managers, with ample citations. The cases include two firms still in state-ownership, three firms undergoing at least partial privatization, and five newly established entrepreneurial firms. In true longitudinal research, the authors follow the firms over the years, interviewing the same managers every year from 1993 to 1996, some up to 1998. The emerging story tells not only of objective changes in the firm throughout the 1990's, but changing subjective views of managers of both their business and the environment. Initially, interviewees' assessments do not show a solid understanding of economics, especially the role of financial markets, competition and corporate governance, i.e. the role of shareholders. Moreover, it seems that Russian managers prefer to talk about their plans rather than about hard facts.

From a methodological perspective, the approach has benefits and drawbacks. The focus on a single informant, usually the CEO, provides an undistorted managerial perspective, not squeezed into unfitting theoretical framework. On the other hand, it would have been helpful if the information had been supplemented with secondary sources, hard data, and critical reflections over the appropriateness of self-evaluations by managers. Economists looking for inspiration for theoretical work may miss precise information on crucial variables such as ownership, contracts or financial performance data (This book is mainly addressed to managers and management

scholars).

An interesting observation of this reviewer is that the firms typically engaged in experimentation and unrelated diversification in the early 1990's, and focussed their business activity in the mid 1990's. This holds for state-owned and privatized firms as well as de novo entrepreneurs. This is interesting from an evolutionary perspective as increased uncertainty generates variety, that is subsequently reduced by competitive selection.

Estrin, Richet and Brada present a major case research project on foreign investment in three transition economies (funded by ACE). The cases follow a common structure to describe the restructuring of acquired firms under new, foreign ownership. They report changes in production, marketing and organizational structure as well as the integration in the investors global organization. In contrast to Puffer et al., this study relies on presenting hard facts, with few original quotes.

The four Slovenian cases by *Marjan Svetli* and *Matija Rojec* are most comprehensive. The acquisition of Tobacna Ljubljana by the German Reemtsma reports changes in the organization in greatest detail, concerning e.g. technological upgrading, marketing strategy and employment. However, the authors do not address the ethical concerns of many observers of the industry. The case of Kolektor shows a Slovenian firm that not only survived the demise of its German partner, but established a major position within the European network of the American multinational that acquired the German firm. In contrast, Sarrio, now integrated in the operations of its new Italian owners, and Biterm, a joint-venture between Slovenian Gorenje and Danish Danfoss, perform specialist production operations with a limited degree of autonomy.

Marie Bohata and *Malinka Kopranova* report four cases respectively from the Czech Republic and Bulgaria, including well-known cases such as VW and Danone as well as small businesses. Most cases show active restructuring after the acquisition and integration in the investor's Europe-wide strategy. The authors generally paint an optimistic picture of their case firms, while acknowledging certain conflicts along the way. It appears that firms manufacturing intermediate goods face greater disruptions in their markets, and therefore greater adjustment challenges, than consumer goods manufacturers.

These case reports provide a valuable source of inspiration for researchers interested enterprise restructuring in the crucial early years of transition. Unfortunately, the publication lag has been rather long: the editors completed their introduction in 1996, for a 2000 publication.

Both books present interesting original material that may stimulate further empirical and theoretical research. Presumably, the authors drew their inferences for policy or theory in papers published elsewhere. The books publications, however, stop short of extracting insights on causal relationships that aid modifying theory or building of models. Moreover, neither study is well integrated in contemporary academic literature, and especially Puffer et al. are vague with respect to issues such as privatization and corporate governance that are of pertinent interest to the

economics literature.

The real power of case research lies in the interaction between the field and theory building, and its contribution to exploring and explaining causal relationships, as done for example by *Antal-Mokos* [1998] and *Newman and Nollen* [1998]. Case research can provide insights on cause-effect relations that permit the re-evaluation of theories and the development of new theoretical models. However, without a rigorous methodology of interaction between case research and theory building, the present books present primarily exciting empirical material waiting to be exploited.

References:

Antal-Mokos, Z. 1998. *Privatisation, Politics, and Economic Performance in Hungary*, Cambridge: CUP.

Newman, K. and S. Nollen (1998): *Radical Organizational Change*, Thousand Oaks: Sage.

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