Strategic Adaptation of Polish Ex-Socialist Industrial Firms in the Period of Economic Transition

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ABSTRACT

This paper takes up the challenge of analysing the process of strategy formation of Polish ex-socialist firms in the context of the emerging market economy. The study of strategy formation of three industrial firms during the first decade of the economic transition (1989-1999) has highlighted interactions between the firms' strategic development and the emergence of new organizational competences. Distinct stages of strategy formation and competences leveraged and/or built at each stage have been clearly identified.

RÉSUMÉ

L'objectif de cette communication est de décrire et de comprendre le cheminement stratégique des entreprises polonaises, dans le contexte particulier de la transition entre l'économie centralisée et l'économie de marché. Il s'agit plus particulièrement d'identifier les interactions entre la formation des stratégies et l'émergence de nouvelles compétences organisationnelles, à partir d'une étude approfondie de trois cas sur une période de dix ans, allant de 1989 à 1999. Ce travail empirique a permis d'identifier les différentes étapes du cheminement stratégique et les compétences mobilisées ou développées à chaque étape.

RESUMEN

Este artículo tiene que ver con el análisis del proceso de la formación estratégica de las empresas polacas en el contexto particular de la transición entre la economía centralizada y la economía de mercado. Más particularmente, se trata de identificar interacciones entre el desarrollo de la estrategia de las empresas y el surgimiento de nuevas competencias organizacionales, a partir de un estudio de tres casos durante diez años (1989-1999). En este trabajo se identifican claramente las diferentes etapas de formación de estrategia y competencias impulsadas o creadas en cada una.

The primary objective of this article is to analyse and better understand the relation between the strategy formation process and building of new organizational competences by ex-socialist Polish firms during the first decade of the transition to a market economy. The abolition of a centralized system and, most of all, the introduction of competition implies, for these newly autonomous organizations, the necessity of formulating and implementing new strategic responses under the conditions of post-rupture discontinuity where both the internal and the external contexts appear particularly complex. This environmental dislocation compels the firms to invent strategies and organizational forms adapted to the post-rupture context. The Polish transition offers a privileged empirical example for analysing strategic renewal in the face of radical environmental change. Indeed, the change process in these firms is holistic, complete, and undertaken quickly.

The specificity of the transition period lies also in the fact that the product and resource markets emerge progressively. Under these conditions, market-driven strategic responses are highly inappropriate. On the contrary, firms are obliged to search for sources of development by focusing on their internal organization. However, this internal orientation presents one major difficulty, which resides in the fact that the organizational resources inherited from the past are inadequate in the emerging market economy. In this particular context, the problem of competence renewal, rarely taken into account by existing theory, appears to be crucial.

The principal questions at the origin of this research are the following: How do Polish industrial firms adapt to new conditions of the emerging market economy? What internal and external factors influence their strategy formation? How do organizational competences develop and renew themselves in relation to the firm's strategic processes? In order to provide answers to these questions, the article is organized around three distinct parts. Firstly, a conceptual framework of competence building is proposed. Secondly, the research design is briefly described. Thirdly, the results of the empirical research are exposed and discussed, leading to a number of conclusions concerning strategic renewal in the particular context of the economic transition.

Conceptual Framework

According to the resource-based view, firms can be conceptualized as systems of tangible and intangible resources

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(Penrose, 1959; Wernerfelt, 1984; Barney, 1991; etc.). These resources are heterogeneously distributed across firms and this difference persists over time (Grant, 1991). Performance is therefore regarded as the result of the firm's inimitable, idiosyncratic resource system and its capability to develop, access, and combine resources in order to build and leverage competences (Hamel & Prahalad, 1994; Sanchez, Heene, & Thomas, 1996). In this perspective, competence is defined as "an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals" (Sanchez et al., 1996, p. 8).

Hamel (1994, p. 16) distinguishes among three broad types of core competences: market-access competences (management of brand development, sales and marketing, distribution and logistics, etc.); integrity-related competences (quality, cycle time management, just-in-time inventory management, etc.); and functionality-related competences (skills enabling the company to invest its services or products with unique functionality, thus investing the product with distinctive customer benefits). Core competences are therefore deployed in three specific domains: production systems, access to new markets and distinctive characteristics of products. Many different factors influence the evolution and accumulation of competences. The role of the firm's history is often considered as particularly critical (Penrose, 1959; Nelson & Winter, 1982; Sanchez et al., 1996). However, competences must be viewed in dynamic terms and must therefore be governed by dynamic capabilities (Lewis & Gregory, 1996).

History and Path Dependence

Competences evolve slowly and arise through collective learning, especially through the coordination of diverse production skills and the integration of multiple streams of technologies (Rumelt, 1994). Based on specific core resources, knowledge, and organizational routines, competence accumulation is path-dependant (Penrose, 1959; Nelson & Winter, 1982). Thus, a firm's competitive advantage is linked to its aptitude to create one or several relatively large technological bases from which it can extend its activities in an uncertain and turbulent environment. In other terms, a firm's performance depends on its capacity to develop defence mechanisms in a small number of particular domains (Penrose, 1959).

According to Cool (2000), the strengthening of competences is based on the accumulation of resources in the domains mentioned above (productive systems, access to new markets, distinctive characteristics of products). Cool (2000) considers two interrelated aspects of resource accumulation: cost and time. The author also shows the existence of economies of scale in the accumulation process. Firms that manage to develop a high level of competence (brand notoriety, number of franchisees in the network, etc.) before their competitors, do it at a significantly lower cost. This phenomenon can be explained by the exponential growth of stocks of resources, which can be summed up in the expression "success breeds success."

The history and path dependence in the process of competence building must also take into account the evolution of the firm's external environment. Indeed, a firm's resources coevolve both with other firms and with various environmental forces (McKelvey, 1997). It appears that the process of competence leveraging and building is embedded within specific socioeconomic contexts. The interactions with the social, political, and economic environments are diverse and recursive (Lewin, Long & Carroll, 1999). The understanding of the evolution of Polish firms' competences must therefore include an analysis of the evolution of the local markets and, more generally, the local socioeconomic environment.

Finally, it appears that history and path dependence constrain the process of competence building, and this can become a disadvantage in high-velocity markets. In these markets, dynamic capabilities by which managers reconfigure and build competences become essential (Eisenhardt & Martin, 2000).

The Role of Dynamic Capabilities in the Accumulation Process

Capabilities correspond to the ability of the firm to organize its resources. They are recognized as important because they determine the uses of resources and assets (Penrose, 1959; Sanchez et al., 1996). Nelson and Winter (1982) describe capabilities as routines which reduce both the possibility of change and the role of managerial intentionality. This vision has recently been enriched and extended to the concept of dynamic capabilities. These represent the firm's ability to continually renew competences in high-velocity environments (Teece, Pisano, & Shuen, 1997; Eisenhardt & Martin, 2000).

The Nature of Dynamic Capabilities

Similarly to Teece et al. (1997) and Eisenhardt and Martin (2000), we define dynamic capabilities as "the firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match and even create market change." According to Eisenhardt and Martin (2000), dynamic capabilities are a set of specific and identifiable processes. Four principal processes can be identified: strategic decision making, resource recombination, new resources acquisition, and knowledge management.

– Strategic decision-making processes are dynamic capabilities in which managers use their expertise to make choices that guide the future of their firms. Already in 1959, E. Penrose highlighted the role of managerial competences in the growth of the firm, based on the following three faculties: "imagination," which enables managers to recognize new production opportunities congruent with the firm's available resources; "ambition," which can be defined as the capacity to take risks relative to using new combinations of resources; and, finally, "judgement," which depends on information systems and on the way in which the firm interprets its relevant environment in terms of opportunities for investment and growth.

- Resource recombination processes involve all coordination mechanisms by which managers combine and reconfigure the resources available among various parts of the firm to generate new and synergistic resource combinations among businesses. On this point, Penrose (1959) proposes the concept of managerial "adaptation capacity," which corresponds to the firm's ability to combine new resources with existing ones.
- New resources acquisition processes include all routines that bring new external resources into the firm. Penrose (1959) remarks that firms which succeed in finding new investment capital owe this mainly to their top managers' capacity to inspire confidence in the firm's future. For the ex-socialist firms, a clear understanding of the evolution of local financial institutions appears to be crucial to ensure the firm's sustained development (Karpinska-Mizielinska & Smuga, 1997).
- Knowledge management processes are important for the renewal of competences because they play a role in strengthening other dynamic capabilities. This explains the growing interest in knowledge management, intellectual capital, social capital, and so forth (Amit & Schœmaker, 1993; Conner & Prahalad, 1996; Foss, 1996; Grant, 1996; Kogut & Zander, 1996; Loasby, 1998; Nahapiet & Ghoshal, 1998; Ulrich, 1998).

This identification of particular processes as dynamic capabilities highlights the role of managerial competence and intentionality in the development and improvement of dynamic capabilities. In the same line, Heene and Sanchez (1997) explicitly recognize the critical effects of managerial cognition, managerial coordination abilities, and managerial abilities to support organizational learning in leveraging and building new competences.

Evolution of Dynamic Capabilities

The evolution of dynamic capabilities depends on two principal factors: the firm's learning mechanisms and the degree of market dynamism (Eisenhardt & Martin, 2000). In moderately dynamic markets, effective dynamic capabilities rely heavily on existing knowledge. They are embedded in accumulated, existing knowledge and are based on efficient processes that are predictable and relatively stable. The authors underline that in this perspective, dynamic capabilities exhibit the properties suggested by traditional research where effective routines are efficient and robust processes (Cyert & March, 1963; Nelson & Winter, 1982). On the contrary, in high-velocity markets, dynamic capabilities rely much less on existing knowledge and much more on rapidly creating new situation-specific knowledge. Eisenhardt and Martin (2000) argue that in these types of markets, effective dynamic capabilities are simple, experiential, and iterative processes. They consist of a few rules that specify boundary conditions or indicate priorities for the actions of managers.

Time-paced Evolution

Many scholars have explicitly discussed the dilemma of change and stability. Baden-Fuller and Volberda (1997) suggest that resolving the change/stability paradox depends on the firm's capacity to separate change and stability either by time or by place. The authors identify four renewal mechanisms: venturing, restructuring, reanimating, and rejuvenating. In case of temporal separation, rejuvenating refers to the taking hold of completely new processes as substitutes for outdated routines and capabilities. To face environmental deconstruction, Polish firms are obliged to engage in a rejuvenating change process. This change mechanism is holistic, complete, and undertaken quickly. Such holistic programs are extremely difficult to implement and rarely go beyond the stage of ambition. To ensure their success it is therefore necessary to mobilize the entire top management team during the entire change process, which, needless to say, is a considerable challenge.

The process of change relies on particular "sequenced steps" of implementation (Brown & Eisenhardt, 1997). Building new competences requires not only knowing the critical processes involved but also understanding the sequence in which they need to be built and leveraged. The first stage of building competences is based on the firm's "system view" capability which designates managerial ability to identify and understand the firm's competitive context and the frame of reference of its actions (Chiesa & Manzini, 1997). The "system view" establishes the firm's learning space and constitutes the first level of competence in the process by which a firm's competence changes and evolves. In the case of Polish ex-socialist firms, the most important managerial cognitive capacity concerns mastering the dialectics between the newly competitive environment and the firms' internal context. This guides the development of dynamic capabilities underlying competence building and leveraging.

Research Design

The comprehensive perspective and the nature of the research questions clearly suggest the use of qualitative methodology. This exploratory work is based on constant iteration between theory and empirical reality. The case study method serves as a basis for data collection. The choice of this particular empirical approach is motivated by the three criteria proposed by Yin (1989): research questions defined in terms of "how," the novelty of the investigated field, and the exploratory nature of the research which makes control of actors' behaviour unnecessary.

Data Gathering and Analysis Procedure

The research perspective is longitudinal, narrative, and process-oriented. The empirical observation is non-participative and concerns the first ten years after the fall of a centrally planned system (1989-1999). This period is particularly significant in studying how firms coevolve with their environments during an economic transition. The unit of analysis is three Polish ex-socialist industrial firms. The selected firms present a number of common characteristics: They are industrial ex-socialist firms; they were non-subsidized at the moment of the fall of the socialist system; they have survived the economic transition; and they are situated in an urban environment.

Data gathering took place during successive visits to Poland between 1996 and 1999. As proposed by Yin (1989), the "explanation building" involved the confrontation of the theoretical propositions with the empirical data. Because of the exploratory nature of this research, theoretical propositions were very open at the beginning of the research and became more precise with time. They mainly concerned the importance of history and path dependence, the role and nature of dynamic capabilities, and the existence of "sequenced steps" in the process of competence building. This methodology brought to light the importance of certain phenomena, such as the impact of social regulation on the process of competence building, which were not previously taken into account by the existing literature in strategy.

The data collection and analysis was an iterative process and it proceeded in several stages. The first set of exploratory interviews allowed the construction of an interview guide. The second stage consisted of interviewing a large number of employees occupying positions on different hierarchical levels. The objective of the final stage was to present the initial results to a small number of selected participants and to enrich these results with another series of interviews.

A total of 45 employees were interviewed during three successive visits. In total we spent an average of 15 days in each firm. The information obtained from interviews was complemented by data gathered from direct observation and official documentation. The multiplication of data sources allowed for the improvement of "completeness" and "saturation," two internal validity research criteria defined by Mucchielli (1991).

Case Studies

The first decade of the economic transition can be divided into three distinctive periods (Sudol, 1996 a). During the first period (1989-1990), the government freed nearly all prices, slashed subsidies to industries and households, and tightened monetary policy to bring down inflation. At the same time, Poland opened up to international trade, which forced monopolies to compete for customers. The zloty was devaluated sharply, to help Polish exporters, and made convertible, so that enterprises and consumers could import freely. During the second period (1991-1995), the emphasis was put on the evolution of the institutional environment (reform of the banking system, creation of financial markets, etc.), on improvement of the quality of local products, and on environmental protection (distribution of national prizes). The year 1995 marked the end of economic recession. After seeing their debts restructured, the state-owned firms began to generate profits. The third period (1996-1999) was marked by the continuation of the reforms introduced previously, the regain of economic growth, and political pressure to increase local firms' export capacities. We will present the case studies in terms of the three phases of environmental change identified above.

Case 1

The first case is an ex-socialist, state-owned firm created in 1951. Since 1958 it has been one of the biggest national producers of paints and varnishes for the construction and automobile industries as well as for consumer markets. In 1998, it employed over 1500 workers and held 22% of the local market share, as well as over 30% of all Polish paint and varnish exports.

The Situation at the Moment of Rupture

Until 1989, the company had a partial monopoly in its geographical zone, and its production was destined mainly for the local market. The director appointed in 1981, a recognized expert in his domain and a charismatic leader, managed to obtain sufficient funds from central authorities to invest in the improvement of the company's production systems.

After 1989, only four local firms were direct competitors, and the most important threat came from imports. Initially, international competitors occupied niches of highly specialized products but they quickly extended their product range. This put unprecedented pressure on local firms, forcing them to renew the bases of their competitive advantages.

The First Stage of Adaptation: 1989-1990

During the first period, the decisions focused on privatization. In 1990, the firm's status was changed, allowing it to enter the first stage of the privatization process. This decision generated internal conflicts by opposing two different types of strategic vision. The management wished to privatize via the newly created financial market, whereas the unions demanded a distribution of the firm's capital among its employees. In spite of strong union pressure, the managers were convinced that the egalitarian distribution of the firm's capital would limit its capacity to find new sources of financing and handicap decision-making processes, thus restraining the firm's long term development. As a consequence, the union's version of the privatization was refused, leading to several strikes. During this period, the unions, protected by favourable legislation, retained the real power in the firm (Sudol, 1996 b). The CEO focused then on direct communication with the employees. He explained the opportunities offered by privatization via the financial markets. Moreover, he guaranteed that no layoffs would be carried out without compensation and that a paternalistic social policy would be maintained. This gradually diminished the power and legitimacy of the union representatives and strengthened that of the management. Its new legitimacy was reinforced by acceptance of the stock-market proposal of privatization. The latter was submitted to the Ministerial Committee in 1992, that is, less than a year after the creation of that institution. At that time, few firms fulfilled the necessary conditions for quotation on the Warsaw stock market. This project, based on offering two types of stock (A and B), was extremely innovative. Stock A was destined for the government, which distributed part of it among the employees. Stock B was offered on the stock market and served to finance the firm's investments. This model later served as an example for other Polish firms. In 1992, the Workers' Council was dissolved, and the Supervising Committee was created in its place. In 1994, the firm was one of the first to be quoted on the Warsaw stock market.

The Second Stage of Adaptation: 1991-1995

During the second period (1991-1995), the focus was on the evolution of the organizational structure, the production systems, and access to new markets. Starting from 1991, the firm concentrated on its core business (paint and varnish) and improved the production systems. This meant rationalizing the product range (1991), improving quality, modernizing equipment, protecting the environment (1993), and purchasing new pigmentation technology (1995). The new ecological orientation meant increasing the proportion of environmentally friendly products and building a purification plant for which the firm obtained numerous national prizes.

In 1991, the firm expanded its activity to the former Soviet markets thanks to the initiative of a chemical engineer from Georgia (USSR) who was familiar with the ex-Soviet markets. The firm also increased its efforts in promotion and advertising on the national market (1992) and developed its own distribution networks (wholesale and retail). New departments were also created: sales and marketing (1991), development (1991), legal (1992), and export (1995). Furthermore, in 1995 the firm decided to merge with its major local competitor to secure its future development. The merger was finalized in 1998.

The Third Stage of Adaptation: 1996-1999

This period was marked by the consolidation of the previous reforms and, particularly, by the reinforcement of competences relative to quality improvement (ISO 9001 certification in 1996) and environmental protection (preparation for ISO 14000 from 1998). Innovation capacity was improved by strengthening the R&D team in 1997. Finally, in response to external pressure to export, a decision was taken in 1996 to develop European markets. In spite of the 1998 merger, nothing had really been done to fulfil this strategic objective at the time of our research.

Case 2

The second case is also an ex-socialist firm, created in 1952. In 1959 its activity became the production of refrigerators and other home appliances. Today, it remains the biggest national producer of home appliances. In 1999 it had a workforce of approximately 5000 employees and held 35% of the local market share.

The Situation at the Moment of Rupture

In 1970 an embryonic R&D department was created. During the early 1970s, the firm expanded its activity to the production of washing machines and freezers. After a period of strong development, it modernized its production systems and specialized its factories in 1977. At the end of the 1970s the firm obtained numerous prizes for its dynamic development. After a period of social unrest at the start of Martial Law, the firm continued to modernize its production systems and expand its product range. It obtained numerous national and international prizes for excellence at various trade fairs. It also reinforced its position on the national market and developed exports (10% of production). Starting from 1989, its most important competitors were foreign firms such as Merloni, BSHG, Whirlpool, Electrolux, Vestfrost, and Candy. As well as high quality products, foreign producers also offered interesting payment conditions, free promotional materials, and delivery to wholesalers.

The First Stage of Adaptation: 1989-1990

Starting from 1990, the privatization debate gave rise to a conflict separating the workers from the director, who had been head of the firm for over 20 years. This eventually lead to his being laid off at the demand of the Workers' Council. This decision, both symbolic and political, resulted in a five-year period of social unrest characterized by a high turnover of successive directors (six). During this period of structural inertia and paralyzing social tensions, no changes were introduced except for the integration of an autonomous after-sales service unit.

The Second Stage of Adaptation: 1991-1995

The second stage coincides with the massive arrival of foreign competitors. Starting from 1991, local producers were no longer protected from international competition. Three decisions were finally taken: to eliminate one delocalized production site, to sell a number of after-sales centers, and, finally, to redefine the distribution networks. The objective was to eliminate the non-profitable units and improve access to newly emerging markets. Survival was the main objective, and these decisions did not really correspond to a clearly defined strategy.

Starting from 1992, a clear attempt to build competences can be observed. This process, initiated by the director of development, focused exclusively on production. It included the incorporation of the R&D unit in 1992 and modernization of the refrigerator production in 1993, thanks to credit obtained from the biggest regional bank after several months of negotiation. This success was reinforced in 1995 by the nomination of the director of development to the position of CEO, thus ending a five-year period of turbulence.

The new CEO launched the privatization project and established a partnership with one of the most important regional banks, thus assuring the firm of a significant new source of financing. He also began to reorganize the firm and define the foundations of a new market defence strategy. Internal communication was intensified to gain the workers' support for the reorganization programs. The creation of the Supervisory Committee in 1997 reinforced the power of managers and decreased the amount of energy spent on preserving social stability.

The Third Stage of Adaptation: 1996-1999

The third period (1996-1999) focused on organizational structure, production systems, and access to new markets. Three objectives were put forward: to remain competitive locally, to develop access to Eastern European markets, and to forego extending into Western markets. In 1998 the firm began producing new models of refrigerators and extended its product range (dishwashers, dryers, microwave ovens, washer-dryer machines, air conditioning, vacuum cleaners). That same year it was quoted on the Warsaw Stock Exchange.

Case 3

The third case, a company of over 500 people, is today a leader on the local para-pharmaceutical market. Specialized since 1986 in the production and commercialization of adhesive plasters and bandages, it held 73% of the local market share at the end of the 1990s.

The Situation at the Moment of Rupture

Firm 3 was founded in 1945. Thanks to the creation of a large R&D unit, the firm had already modernized its production systems in the 1960s. It had also innovated both production methods and products. From the early 1970s, the firm, no longer subsidized by the government, began to generate profits and initiate its diversification. By the early 1980s, it was restructured with the clear objective to reduce the production of viscose in order to limit the emission of toxic substances. At the same time, it invested in new purification technology, clearly manifesting its concern for the environment. In 1981 the Ministry of the Chemical Industry accepted the proposition of the CEO (who remains at the head of the firm today) to focus on the production of bandages and adhesive plasters. Thanks to a loan obtained from the Central Bank, the firm purchased the necessary technology from a West German firm and the project was terminated in 1986. Despite the economic crisis in Poland between 1986 and 1989, it gradually developed this new activity.

The First Stage of Adaptation: 1989-1990

For the company, the introduction of a market economy in Poland meant facing competition for both of its activities. On the viscose market, its most important competitors were all Polish state-owned firms. On the para-pharmaceutical market, its competitors included major international groups.

Very early, in 1989, the management decided to privatize the firm. However, this process was not initiated until 1994 because the employees were extremely worried about the stability of their employment. To avoid social unrest, the management announced its decision not to proceed with massive layoffs and proposed to maintain most of the social benefits.

The Second Stage of Adaptation: 1991-1995

The firm's mission was redefined and a new strategic vision formulated. The firm focused on its bandage activity, and viscose production was eliminated completely in 1994. Starting from 1991, the firm created a joint venture with a European partner "X" for the production of diapers for babies. This partnership had two main objectives: to use the facilities made available by the elimination of viscose production and to transfer viscose production employees to this new production site. In 1994 the firm sold its equity in the joint venture to its partner, on the condition of "no layoffs."

The firm continued to expand its product lines, acquired new technologies, and modernized its production processes. Under heavy pressure from local and European environmental lobbying, it invested in environmentally friendly technologies and engaged in an expensive anti-pollution program. It also improved its distribution channels in Poland and decided to develop Eastern European markets. In 1994 it launched ISO 9001 and ISO 14000 certification programs and reinforced its R&D by hiring new scientists.

The Third Stage of Adaptation: 1996-1999

This period was marked by encouraging results and accelerated development. In 1997 the firm was quoted on the Warsaw Stock Market, obtained the ISO 9001 certificate, and received four different prizes for the "best Polish product." Modernization came to an end in 1998. In 1998 and 1999, the firm conquered new local markets by creating partnerships with hospitals and health care centres. It also developed new products, and improved the characteristics and quality of the existing ones. Finally, after being on the list of the 80 most polluting Polish firms in 1990, it obtained in 1999 the first national prize for being "environmentally friendly."

Results and Discussion

Based on Desreumaux' (1986) process analysis model, the research was designed to gather and analyse data concerning the actors, the time, and the driving forces of strategy formation. Data analysis followed the methodology proposed by Huberman and Miles (1991). This involved data condensation, matrix construction, and finally, the formulation of conclusions.

The Role of Actors

The three cases reveal the role of the privatization process in the strategic renewal of Polish firms. In each case the decision to privatize the firm constituted the first strategic decision taken by the management. The success of privatization and quotation on the Warsaw Stock Exchange marked an important stage in the firms' development. Moreover, the privatization process gave rise to tensions between the principal actors concerned and progressively institutionalized new roles for each category of actor.

The Privatization Process

The privatization processes in the three firms studied are very different. The data concerning the three privatization modes are summed up in Table 1.

TABLE 1

Descriptive Matrix of the Privatization Process

	STAGES				
Firms	**Launching of the privatization process**	**Status change (unipersonal entity of Public Treasury)**	**Negotiation of the privatization mode**	**Creation of the Supervisory Committee**	**Quotation on the Warsaw Stock Exchange**
Firm 1	Beginning of 1990	End of 1990	End of 1990 Initiation of negotiations with the unions and directly with the workers; assurance of no lay-offs without compensation Communication efforts on privatization opportunities	1992 The privatization project is accepted by the Ministry of Privatization 1992 Creation of the Supervisory Committee	1994
Firm 2	Beginning of 1990 Eviction by the Workers' Council of 6 directors	1995	From 1995 Negotiation of the privatization with the Workers' Council and the unions Privatization via financial markets is accepted on the condition of compensations	1997 Creation of the Supervisory Committee Very symbolic, in this firm it closes a post-socialist era	1998
Firm 3	1990	1991	1994 Preparation of privatization and the choice to use the Eleventh National Investment Fund (1995)	1994 Creation of the Supervisory Committee	1997

Even if the privatization processes follow the same stages, their development is very different: rapid in Firm 1; long and conflictual in Firm 2; and, paradoxically, long but non-conflictual in Firm 3. To explain these differences, it seems necessary to analyse the role played by the actors involved.

The directors of Firms 1 and 3 had been at the head of their firms for a very long time and were recognized as experts in their respective domains (technical expertise in Firm 1, managerial expertise in Firm 3). These directors were also charismatic leaders. In addition, the director of Firm 3 had a real talent for negotiating with the unions. On the contrary, at the moment of rupture, the director of Firm 2 was engaged in open conflict with the Workers' Council. Moreover, during the first five post-rupture years, the workers and the unions of Firm 2 did not realize that privatization was necessary. This resistance may have originated in the fact that Firm 2 had always been supported by the banks and by its international partners who, for the first few years after 1989, accepted to absorb a great part of its production. As a consequence, the employees did not feel directly threatened by the evolution of the external environment, but focused on the power struggle within the firm. It is noteworthy that in Poland, Workers' Councils have traditionally held significant legitimacy and power as a result of the role they played in the abolition of communism.

If the conflicts between the top management and the Workers' Council can partially explain the slow pace of the privatization process in Firm 2, a different type of explanation is necessary to explain the same problem in Firm 3. The matrix shows a certain similarity in the three cases: each firm negotiated the privatization via financial markets in exchange for guaranteeing no layoffs without compensation. Firm 3 was in the process of restructuring at the moment of rupture. Indeed, it planned to gradually abandon the production of viscose and develop a more profitable and less polluting activity. It was on the basis of this progressive reorientation that an acceptable privatization project could be presented. This project was to be implemented only in 1994, a date which coincided with the elimination of viscose. However, this reorientation was being implemented very progressively in order to respect the essential "no layoff" compromise.

Emergence of a New Regulation

The privatization process appears to be at the origin of the emergence of a new regulation. In order to explain the regulation process it appears necessary to make a theoretical detour from orthodox "strategy" literature. Within the scope of organization theory, the neo-institutional theorists analyse the mechanisms by which social processes become rules, thus highlighting that organizational reality is more complex than formal structure (Powell & DiMaggio, 1991). Furthermore, neo-institutionalists reject the model of a rational actor and affirm the impact of the environment on the organization. However, some authors (Reynaud, 1993, 1999; Giddens, 1987) propose enriching the neo-institutional analysis by integrating the agent model theory (Rojot, 1996). Indeed, from this perspective the notions of action and structure are conceptualized in a dialectical relationship. Giddens (1987, 1993) and Reynaud (1993, 1994, 1999) propose two similar visions of collectivities. These consist of interactions between members, and the duality of structure is their most important aspect, which indicates the fact that a collectivity is constantly reconstructed in action. From this perspective, "joint" regulation emerges from the action/structure dialectics and its result is uncertain.

The creation of rules is therefore a dynamic and recursive process: Rules are produced by the system, and at the same time they produce the system (Giddens 1987). Consequently, there are no stable rules but only regulation processes that can be defined as creation and maintenance of rules. Rules and systems coevolve perpetually. In a firm, there exist many different sources and domains of regulation (Reynaud & Reynaud, 1994). Two sources are traditionally cited: control regulation or a set of official rules defined by the hierarchy, and autonomous regulation or the rules defined by the group itself. The regulation process of a firm is therefore complex. It combines different sources, levels, and domains. Its dynamics can be understood through the analysis of its constitutive dimensions. According to Giddens (1987, 1993) the production of interaction has three fundamental elements: its constitution as "*meaningful*," its constitution as a *moral order,* and its constitution as the operation of *power* relations.

The privatization process radically changes the signification, domination, and legitimization structures. Firstly, privatization gives autonomy to firms which, for the first time, have to invent their future. Secondly, the domination structure changes because privatization gives managers more decision-making power and introduces new influential actors such as shareholders. Thirdly, privatization modifies the legitimization structure, introducing new values such as profitability or efficiency. Top management plays a significant role in the implementation of this new regulation process. As it has been suggested by Eisenhardt and Martin (2000), in the three firms considered, this implementation was based on two simple but essential rules:

- Privatization via financial markets. This mode corresponds to the strategic wish to give real decision-making power to the managerial team and to guarantee the firm access to new investment capital, essential for its future development. Moreover, this privatization mode corresponds to the philosophy inherent in "shock therapy."
- Undertaking not to proceed with massive layoffs without compensation. This rule makes change more acceptable for the employees.

At the same time, the hierarchy has to convince the employees of the necessity of change. In Firm 3, starting from 1991 the management decided to include the workers in the firm's transformation and created several employee committees concerning different social matters, including remuneration. Negotiation with the employees and unions made it possible to preserve social cohesion within the firm. In Firms 1 and 2, unions and workers were strongly opposed to this mode of privatization. We find here a certain ambiguity, typical of Polish unions—during the entire decade of the 1980s they fought for liberation from the socialist system, but after the rupture they remained deeply attached to socialist values such as equality, solidarity, and so forth. In Firm 1, the management decided to communicate directly with the employees in order to bypass the union representatives. The ingenuity of this privatization mode, which would later serve as an example for other firms, plus the company's positive results, progressively reinforced the power and legitimacy of the managerial team.

The implementation of quality improvement and environmental protection programs was strongly supported by employees within the three firms. It thus constituted an important vector of change of representations, mainly by highlighting the positive aspects of "economic efficiency," a key value of market economy. These programs were particularly important for Firm 2 where "quality and ecology had purifying effects" (Production Manager). In this firm, where the internal climate was particularly tense, these programs ensured the legitimacy of its managers, thereby strengthening their power.

In all cases, the dissolution of the Workers' Councils and creation of Supervisory Committees, which institutionalized the new distribution of power, were key elements of the initiation of new social regulation. Indeed, the creation of the Supervising Committee focused union activity exclusively on social domains.

Competence Building Processes

For each firm, the competence accumulation process was analysed in relation to the three key domains (production systems, access to market, and distinctive characteristics of products) over the three stages of strategy formation (1989/1990, 1991/1995, 1996/1999). This analysis gave two main results: the importance of path dependency and the role of dynamic capabilities.

First, all firms show that leveraging and building of a particular type of competence appears easier when this competence already exists, confirming the existence of the economy of scale in the accumulation process (Cool, 2000). All three firms very logically started building their competences relative to their production systems and it is precisely in this domain that capitalization was the most significant.

Concerning access to new markets, none of the firms had important competences in this domain at the moment of rupture. They were therefore obliged to develop them by recombining their internal resources and/or by acquiring external resources. This building of new competences appears to be easier when it concerns local markets. However, the competences developed relative to national markets do not seem useful when it comes to the development of other unknown markets. Firm 1 very quickly developed competences relative to Eastern European markets, giving it a real competitive advantage in comparison to its main competitors. Indeed, if these markets are very difficult to develop for Eastern European firms, as witnessed by Firm 3, they are equally difficult for Western firms. Firstly, these markets are politically unstable and secondly, they are prone to opportunistic behaviour. The rapidity with which these competences are developed seems to play an important role in elaborating the competitive advantage, as we observed in the example of Firm 1, which exports over 30% of its total national production of paint and varnish. In addition, the development of Western markets seems very difficult for Polish firms, mainly because firms operating in these markets have already accumulated solid competences in the domains of marketing, notoriety, and distribution networks. Therefore, the absence of capital seems to be a principal barrier in building competences of this sort (Bœhlke, 1996).

Finally, the three firms began to develop the capacity to "distinguish their products" during the last period of their strategic development. It therefore appears that the development of these competences is supported by those accumulated in the other two domains. Indeed, development of competences necessitates both mastering of the production systems and a real knowledge of markets. Haffer (1996) emphasizes that innovation strategies cannot be conceived without a clear commercial vision. According to a survey conducted in 73 Polish industrial firms, the author distinguishes four innovation strategies implemented by ex-socialist firms during the economic transition: modernizing (improvement of existing products), technical (change of production technologies), imitative (imitation of foreign products), and radical (development of completely new products). Firms 1 and 3, which accumulated competences more quickly in the first two domains, also seem more advanced when it came to innovation. Indeed, according to the typology proposed by Haffer (1996), Firm 2 developed essentially modernizing and technical innovations, whereas Firms 1 and 3 began to propose some radical innovations: specific products with high added value (Firm 1) and new types of plasters (Firm 3).

The second result highlights the role of dynamic capabilities in the competence building processes. It provides a better understanding of the specific dynamic capabilities used and developed in the different phases.

First of all, we note that in 1989, Firm 2 possessed competences relative to both the productive systems and access to markets. It was the only firm, for example, to maintain commercial relations with partners from Western Europe and North America and to obtain international prizes. However, it was also the one which experienced the greatest difficulties in renewing and developing these competences. If at the end of the 1990s the results of the three firms were equivalent, those of Firm 2 clearly remained inferior when it came to commercial networks and innovation. On the other hand, Firm 3 appeared to be the most handicapped at the moment of rupture. Its principal industrial activity was scarcely profitable and highly pollutant. Its attempt at diversification, initiated in 1981, and slowed down by the political difficulties of the period, got off the ground only in 1986. However, starting from 1989 its competences in the three key domains built up rapidly. Table 2 shows the role of the dynamic capabilities in the strategic renewal of this firm. In fact, even before the 1989 rupture, Firm 3 possessed capabilities in terms of strategic, organizational, and new resource acquisition processes. The presence of these capabilities was rare in socialist firms, and this may partially explain the firm's adaptation. Its delicate industrial situation at the beginning of the 1980s, was to become the source of its future success, allowing it very quickly to develop dynamic capabilities.

The results obtained confirm the role of dynamic capabilities in the accumulation and renewal of competences. However, dynamic capabilities present common key features and cannot be a source of sustainable competitive advantage (Eisenhardt & Martin 2000). In fact, Firm 1, which in 1989 did not have true dynamic capabilities, did develop them very rapidly, and these were instrumental in building key competences in the three key domains. Thus, the role of dynamic capabilities is essential for the firm's evolution.

An important question then arises: Why do certain firms (Firms 1 and 3), develop dynamic capabilities more rapidly than others (Firm 2)? Managers play an important role in the development of these capabilities. However, effective dynamic capabilities also involve routines, rules, and social bonds. Firm 2 shows that these cannot be imposed. On the contrary, they are formed during the initiation and reproduction of social practices. Social regulation is therefore a key component of dynamic capabilities.

The analysis of the three firms shows that the development of dynamic capabilities is embedded within true bonds of social power. We have seen that these power relations manifested themselves throughout the privatization process. In Firm 2, the union objected to an evolution of the domination structure which would favor the managerial team. This attitude blocked the firm's evolution until 1995. On the other hand, the ability of firm's managers (Firm 1) to change signification, domination, and legitimacy structures revealed itself to be a decisive factor in the firm's evolution.

"Sequenced Steps" in Strategy Formation

The analysis of data highlights the existence of three distinct stages in strategy development within the strategy formation process. In each firm, strategy formation followed the same stages: post-rupture stabilization, redefinition, and reconstruction. During each stage, firms leveraged and built distinct capabilities and competences.

The Phases of Strategy Formation

Three phases of strategy formation were identified: stabilization, redefinition, and reconstruction. They have different durations and follow/overlap for longer or shorter periods.

The phase of stabilization occurs after a rupture. A rupture can be defined as an external shock (threat/opportunity), which forces the firm to note the insufficient level of competences necessary to face the shock. This phase corresponds to the organizational and strategic status quo of the firm which bases its operations on the exploitation of existing resources. However, this phase is essential because it constitutes the foundation of future development based on "system view" capability: the capacity to understand the new competitive environment and the internal frame of actions. In the cases studied, the major problem concerned understanding the internal frame in order to establish a stable foundation for organizational learning. The difficulty resides in the fact that this stage involves two contradictory but simultaneous processes. The first step involves making the employees realize the necessity of change. Close to Lewin's (1951) concept of "unfreezing," it involves making the necessity of privatizing the firm so obvious that all organizational members accept and participate in it. At the same time, the objective of the second process is to reassure the employees and to preserve the social equilibrium. It concerns the elaboration of a social compromise making the radical change period more comprehensible and acceptable. In the three firms, the emergence of the system view is based on two simple rules: privatization via financial markets and an undertaking not to proceed with massive layoffs without compensation. These two rules, accompanied by communication efforts concerning the firm's development opportunities after privatization, establish the learning space of the firm and constitute the basis of the emergence of a new social regulation. The stabilization stage mainly concerns the first dimension of social regulation: the signification structure.

The redefinition phase is based on the ability to identify new opportunities congruent with the firm's existing resources (judgement and adaptation) or the ability to leverage these resources (imagination and ambition). This phase is concerned with the definition of major strategic options: markets, domains of activity, products, technologies, and so forth.

The main objective of the reconstruction phase is to develop a portfolio of organizational competences necessary for strategy implementation. This reconstruction process can be interpreted in terms of competence renewal, even if it is based on the key competences pre-existing in the firm. In the cases analysed, the firms chose to consolidate their position on the local market in order to defend their market share in the face of increasing international competition. To achieve this goal, the first change involved the production systems, then access to new markets, and finally the capacity to distinguish the products. This renewal was made possible by the mobilization of dynamic capabilities: the ability to modify social regulation, to find new sources of financing, and to combine new resources with existing ones. Our results highlight the role of the emergence and the stabilization of a new social regulation in the holistic change undertaken. Profound modification of signification, legitimation, and power structures make it possible to go beyond the stage of ambition and to mobilize all organizational members during the entire change process.

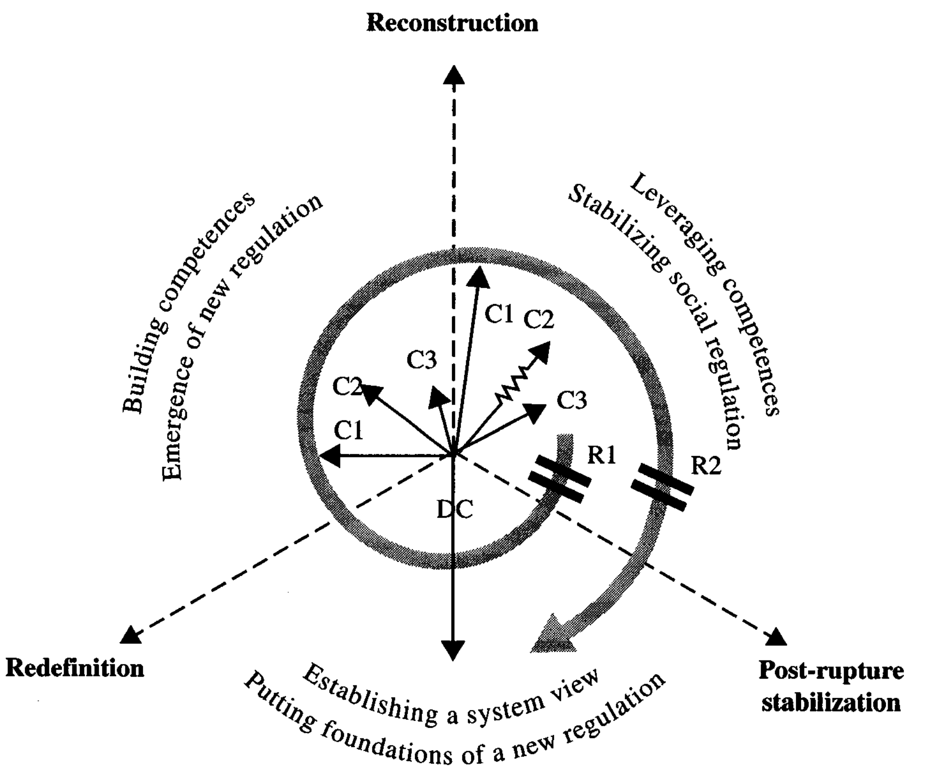
The Dynamics of the Accumulation Process

The accumulation of competences follows a path which respects the proximity between resources at different phases (Penrose, 1959; Teece et al., 1994). This dynamic process is characterized by two elements: economies of scale and the existence of ruptures.

Economies of scale in the accumulation process are linked to two distinct phenomena: the exponential growth of resource stocks (Cool, 2000) and the accumulation of knowledge concerning the exploitation and combination of resources (Penrose, 1959; Sanchez, Heene, & Thomas, 1996). On this point, Cool (2000) mentions the role of organizational knowledge in the accumulation process and emphasizes the effects of experience.

FIGURE 1

The Relation Between Strategy Formation and Competence Accumulation



DC	=	dynamic capabilities	C1	=	Competence: productive systems
R1	=	first rupture in strategy formation	C2	=	Competence: access to markets
R2	=	second rupture in strategy formation	C3	=	Competence: distinctive products
⟶	=	accumulation process	-ww→	=	rupture in the accumulation process

The results unveiled the existence of ruptures in the competence accumulation process. These appear when the distance between resource levels in two successive periods is too great. This distance is linked to the difference in the nature of the resources that a firm wishes to accumulate, such as competences concerning access to new markets. As an example, the possession of a distribution network in Eastern Europe cannot be considered as a stock of resources which allows the development of distribution channels in Western Europe. Moreover, building competences necessary for developing Western markets will certainly be much more difficult and costly, since Western firms already have the necessary competences in this domain.

The relation between strategy formation and accumulation of competences can be schematized as follows:

This figure shows the importance of the stabilization stage after a rupture. In this case, the rupture forces the firm to undertake programs of holistic and rapid change. The first rupture (R1) corresponds to the fall of the centralized economic system. The second (R2) is linked to the pressure to increase exportation to the Western markets put on firms by the Polish government. As a result of this pressure, Firm 1 decided in 1996 to develop its exports. This strategic decision highlighted the important lack of competences to implement such a strategy. Apart from the merger with a local competitor, in 1999 nothing had been done to build competences to access Western markets. This incapacity to renew competences results from the difficulty in identifying and understanding the Western competitive context, in other terms, the difficulty of establishing a new "system view."

The figure also illustrates the interactions which exist between the ruptures emerging in the process of strategy formation and the ruptures existing in the process of competence accumulation. The second rupture in strategy formation (R2) is directly linked to the rupture in competence accumulation relative to accessing new markets.

The stage of reconstruction concerns first the building of new competences and then their reinforcement and leverage. This competence renewal process is intimately linked to the emergence and stabilization of a new social regulation. The process of social regulation is a key component of dynamic capabilities.

Conclusion

The primary objective of this paper was to analyse the processes through which Polish firms adapt to new conditions of the emerging market economy. The case studies show that building new competences is a complex process with multiple causalities. The interactions with the social, political, and economic environments are diverse and recursive. They guide the renewal of competences. Nevertheless, managers often manifest innovative behaviour and thus play an important role in their firms' adaptation and development. Therefore, the building of new competences partially depends on the ability to develop the firm's dynamic capabilities.

Dynamic capabilities are a result of a complex process within which several driving forces interact. However, it clearly appears that managers play a significant role through the social regulation process they influence. Indeed, the main conclusion drawn then is that the regulation capacity is a key component of dynamic capabilities and a mediating variable of building new competences. The analysis of the regulation process helps to better understand the organizational aspects of dynamic capabilities such as the organizing principles and the nature of organizations as social communities. These two aspects are scarcely touched on in the literature on competences. Power relations, for example, are often absent from the analyses. The study of the three dimensions of the regulation process—signification, power, and legitimacy—can therefore enrich our understanding of dynamic capabilities, and this especially in high-velocity markets which demand the rapid creation of situation-specific new knowledge.

The first stage of building competences is based on the firm's "system view" capability which designates managerial ability to identify and understand the firm's competitive context and the frame of reference of its actions (Chiesa & Manzini, 1997). The " system view " establishes the firm's learning space and lays the foundations of a new regulation by changing the signification structure. The second stage concerns the building of new competences and is intimately linked to a modification in the power relations and organizational values underlying the legitimacy system. During the third stage, firms reinforce and leverage their competences.

More than offering clear answers to our questions, this study opens new research perspectives and confirms that a social approach to coordination deserves to be further investigated ▪

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