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## **THE ROLE OF MANAGEMENT IN TRANSITION ORGANIZATIONS**

### ABSTRACT

*In contemporary business environment is management one among most powerful groups in organizations, since management importantly influences operations and future success of an organization. Manager's work and behavior are importantly dependent upon several interrelated inside and outside (i.e. organizational) factors. In transition economies, the transition process of economy (i.e. economy transition), importantly influence the general framework of management work and behavior (on all levels of working – e.g. macro, mezzo and micro). In selected context the paper focuses on the question how economy transition impact on management practice (i.e. working and behavior) and its characteristics in organizations. Our assumptions, especially about management practices in transition and innovative transition organizations are based mainly on cognitions from research how to improve the level of innovativeness of transition organizations in transition economy.*

**Key words:** *management, economy transition, transition enterprises, innovative transition enterprises, innovative working*

**JEL classification:** *P36, M00, D23, D01*

### **1. INTRODUCTION**

Contemporary business environment has heightened the role of management in organizations. Management is attainment of organizational goals through planning, organization, leading and controlling (Schermerhorn, 2008; Daft, 2000). Therefore management work and behavior importantly influences operations of an organization and its future success.

But looking from the other perspective, manager's working and behavior is influenced by several important (interrelated) factors (e.g. organizational level, economic situation, leader's personality, and superior's expectations) (Megginson et al., 1992, 474-477). In that frame the environment of an organization is a part of complex criterion which influence differently on the organization and in that context on working and behavior of management.

In selected context the transition process of economy (i.e. economy transition), importantly influence the general framework of management work and behavior (on all levels of working – e.g. macro, mezzo and micro). In that context we are focusing in our contribution on the question how economy transition impact on management practice (i.e. working and behavior) and its characteristics in organizations.

Transition is most commonly used in economic context and is defined as a movement from a centrally administered (or only partially market-based economy) to a market-based economy, where innovations are considered as a basic prerequisite for country's future development (and in that context towards innovative organization) (Potočan and Mulej, 2007; Marangos, 2006; Mencinger, 1993). We use terms organization and enterprise interchangeably.

According to above presented starting points the paper presents two theses: (1) economy transition importantly influences management practices and its characteristics in organizations; and (2) the practice of management and its characteristics in transition organization must lead towards innovative working and behavior. These assumptions are based mainly on cognitions about research how to improve the level of innovativeness of transition organizations in transition economy.

This paper focuses on researching, how economy transition impact on management practice and its characteristics in organizations. Therefore the paper is organized as follows. In Section 2 we introduce a framework for understanding management in organizations. In Section 3 we outline basic characteristics about transition process and introduce an alternative view on transition problematic. In this section we also emphasize the role and importance of enterprise restructuring process for further development of organization. In Section 4 we present several most important characteristics about transition and innovative transition enterprises and most commonly used management practices (i.e. working and behavior) in transition and innovative transition organizations.

## **2. A FRAMEWORK FOR UNDERSTANDING MANAGEMENT IN ORGANIZATIONS**

In nowadays highly volatile business environment managers are faced daily with constantly heightening challenges and complexity in their work. Therefore management in different (types and/or forms) of organization has become one among crucial factor for business success of contemporary organizations in highly volatile environment (Daft, 2000; Žugaj and Brčić, 2003; Schermerhorn, 2008).

Various definitions of term management exists (see: Schermerhorn, 2008; Daft, 2000; Megginson et al. 1992; Holt, 1993; Mondy and Premeaux, 1993). A simple definition defines management as attainment of organizational goals in an effective and efficient manner through planning, organizing, leading and controlling (Daft, 2000: 7). On the other hand Schermerhorn (2001: 8) defines management as the process of planning, organizing, leading and controlling the use of resources to accomplish performance goals. Regardless of selected definition of term management, the primary challenge of

management is to guide organization toward the accomplishment of its objectives (Mondy and Premeaux, 1993, 332).

The most important tasks in the frame of four basic management functions are (Daft, 2000: 8-11): (1) planning – the main tasks of management are defining goals for future organizational performance and decision about resources needed to attain them; (2) organizing – the main management tasks are assigning tasks, grouping tasks into departments, and allocation of resources among functional areas (i.e. departments) in organization; (3) leading – the primary activities are related to use of influence to motivate subordinates to achieve the organization's goals; and (4) controlling – the main management tasks are monitoring of employee's activities, keeping the organization on track towards its goals, and making corrections as needed.

Different management authors (see: Daft, 2000; Schermerhorn, 2008; Dessler, 2004) often emphasize the importance of leadership abilities for managers. In that frame is essential that managers also have leadership abilities in order to ensure that subordinates will perform their tasks, which are needed for accomplishing organizational goals. But on the other hand not all people possess (and/or have) managerial and leadership abilities at once (Megginson et al., 455-456; Daft, 2000, 503).

Manager's working and behavior is influenced by several interrelated factors. Mainly there are two groups of factors affecting manager's working and behavior (Megginson et al., 1992, 474-477): (1) general factors – which indirectly influence leadership behavior over period of time are: (a) the economic situation; (b) the historical and cultural environment; (c) the industry; and (d) the organization; (2) specific factors – that influence leader's behavior are: (a) superior's expectations and behavior; (b) organizational level and group size; (c) subordinates' expectations and behavior; and (d) leader's background and personality.

According to the purpose of our paper we put our focus on the environment of an organization, which is a part of complex criterion (and/or partial criterion) which influence differently on the organization and in that context on existing management practice (i.e. working and behavior of management).

In above selected context the transition process of economy (i.e. economy transition), importantly influence the general framework of management work and behavior (on all levels of working – e.g. macro, mezzo and micro). In that context we are focusing in our contribution on the question how economy transition impact on management practice and its characteristics in organizations. In following chapter economic transition is discussed into more details.

### **3. HOW WE UNDERSTAND TRANSITION**

There are various different definitions of term transition (in economic literature) proposed by different authors (Marangos, 2006; Mencinger, 1993; Bučar and Stare, 2003; Papava, 2005; Potočan and Mulej, 2007). Most commonly is transition defined

as a movement from a centrally administered (or only partially market-based economy) to a market-based economy (see: Marangos, 2006; Papava, 2005).

There has been growing interest about transition issues among researchers, especially from the beginning of 1990s, in Central and East European Countries (CEEC) (Dyck and Mulej, 1998; Papava, 2005; Marangos, 2006; Potočan and Mulej, 2007). Different countries (and/or group of) countries (e.g. CEEC) with similar characteristics (e.g. previous development, current state of transition) have similar initial conditions for transition. Therefore countries (and/or group of them) experiences differences in their transition process (i.e. CEEC, Mexico, China) (Marangos, 2006; Papava, 2005; Dyck & Mulej, 1998; Harvie, 1999).

After reviewing of literature dealing with transition, we assume that the main body of literature dealing with transition issues neglect and/or put aside the complexity of transition process in the terms that term transition (see above definitions) does not explicitly capture all the complexities which are involved in the transition process of a economy and/or organization (Marangos, 2006; Rosser, 2002). There is a substantial lack of interdisciplinary in discussion about transition in literature (Potočan and Mulej, 2007). This becomes an important issue recently (e.g. assessment of current state of transition of a country). We introduce an attempt how to more holistically dealt with issues and problematic of transition in order to avoid (and/or reduce) misleading conclusions about issues about transition.

### **3.1. How to more holistically define term transition**

For more holistically view and/or dealing with transition issues and also for presentation of real state of transition of whole society (and also its business objects) is necessary to distinguish between two interdependent views of transition (see: Potočan and Mulej, 2007):

- Legal view of transition – i.e. institutional transition, and
- Readiness of people for transition into innovative society – i.e. real transition.

Institutional transition defines legal passage from current state into a new state (e.g. innovative society). Institutional transition is viewed in economical, legal and political reorganization and/or reformation. On the other hand it is very difficult to perceive and define real transition. Real transition is never ending process, because all societies always converge to the higher levels of its development and its level of innovativeness, even world's most innovative societies (e.g. EU 15, USA, Japan).

Both transitions (institutional and real) are required, because only institutional transition is not enough, since people are not ready for transition into innovative society in terms of their personal values, culture, ethics and norms (VCEN) (Potočan and Mulej, 2007; Ralston, 2008). Therefore is important that simultaneously with institutional transition also the innovation and/or change of values /culture/ norms/ethics of all society members are done (Ralston, 2008; Marangos, 2006).

A way from institutional to a real transition is usually long-lasting, even few decades and is importantly dependent upon several factors (e.g. level of development of a

society, its historical development, macroeconomic regulation, values/culture/ethics/norms of people) (Ralston, 2008; Potočan and Mulej, 2007; see also: Rokeach, 1973; Rokeach, 1979; Ralston et al. 1992; Ralston et al. 2007).

In the case of Slovenia the institutional transition was done with entrance of Slovenia in European Union (Mrak et al. 2002). Also according to more important macroeconomic data (e.g. GDP/p.c.) is Slovenia successfully brought to an end institutional transition (see: Potočan and Mulej, 2007). From this point of view is Slovenia comparable with high developed countries in EU 15 and world (e.g. USA, Japan).

But on the other hand, from the view of real transition Slovenia is keep lagging behind high (and/or most) developed societies (i.e. innovative societies), due to the several important open issues (e.g. lack of innovative capacity of managers, low overall competitiveness of a country) (Bučar and Stare, 2003; Ženko et al. 2004; Potočan and Mulej, 2007; Mulej et al. 2005). These open issues emphasize that real transition in Slovenia is not over yet.

In next chapter we are focusing on process of restructuring of enterprises in transition economy, which is an important starting point (and also precondition) for transforming transition enterprise into innovative transition enterprise.

### **3.2. A process of restructuring enterprises**

Many researchers are dealing with issues about transition, but limited mainly to institutional view and often also to the macroeconomic level (Ovin and Borak, 1997; Mencinger, 1993; Marangos, 2006). Since many authors addressing transition in their discussion only in terms of institutional transition, such a view could be misleading and could lead to false conclusions about actual state of real transition of economy.

Proposed definition of transition (institutional, real) has become an important starting point for future research about open transition issues in Slovenia. Such a way of understanding transition importantly contribute to the disclosure of real state of transition in a country and especially its organizations, by focusing on the readiness of people (and especially management) for transition into innovative transition enterprise. Therefore more holistically defined transition prevents to keep problems of real transition behind institutional view of transition. Based on our findings and experiences from past project, we can conclude that there is a perceived lack of papers and discussions about real transition issues (see also: Potočan and Mulej, 2007).

According to above presented cognitions, we can conclude that many macroeconomists (see: Mencinger, 1993; Mrak et al. 2002; Marangos, 2006) identified the privatization of state-owned enterprises as the most pressing issue to be solved (some ways of privatization are e.g.: auctions, restitution, free distribution of vouchers, labor managed firms).

Since macroeconomists dealing with privatization on macroeconomic level, the organizational level of privatization process and its consequences for management is often neglected in transition literature (see: Potočan and Mulej, 2007).

From organizational point of view we can conclude that privatization of state-owned enterprises importantly influence future operations of an organization, existence of organization, organizational position on market (e.g. free market, competition, new markets) and management practice (i.e. working and behavior).

Therefore economic transition coupled with privatization process has importantly influence existing management practice (i.e. working and behavior) in transition organizations. This leads to the following question: Are existing management practices (i.e. working and behavior) in transition enterprises adequate for management in radically changed business environment?

#### **4. MANAGEMENT IN TRANSITION AND INNOVATIVE TRANSITION ENTERPRISES**

In following chapter we first outline several most important characteristics of transition and innovative transition enterprises, which serve us as a starting point for drawing conclusions about the role and practices of management (i.e. working and behavior) in transition and innovative transition enterprises.

Based on our selected literature, experiences from business practice and findings from recently finished project about transition in Slovenia we suppose that economic transition coupled with privatization process has importantly influence existing managerial practice (i.e. working and behavior) in transition organizations.

Basic characteristics of transition enterprises and innovative transition enterprises are summarized in Table 1.

**Table 1: Basic characteristic of transition and innovative transition enterprises**

<b>Transition enterprises</b>	<b>Innovative Transition Enterprise</b>
<ul style="list-style-type: none"> <li>- A great proportion of unnecessary costs</li> <li>- Prevailed routine loved mind</li> <li>- Prevailing VCEN favor collectivism and solidarity</li> <li>- No pressure for innovation (from market or managers)</li> <li>- Poor/weak cooperation between enterprises and research institutions</li> </ul>	<ul style="list-style-type: none"> <li>- There are no unavoidable costs</li> <li>- Working smarter, not harder</li> <li>- Innovating can never stop (competitors don't)</li> <li>- Look for many inventions</li> <li>- Work as "creative, educated and knowledgeable"</li> <li>- Extensive cooperation between enterprises and research institutions</li> </ul>

Source: Based on Potočan and Mulej (2007), Potočan (2006) and findings from past project.

Based upon outlined characteristics of transition and innovative transition enterprises we outline some most important assumptions about role of management and management practices (i.e. working and behavior) in transition and innovative transition enterprises. Our assumptions are summarized in Table 2.

**Table 2: Management practice in transition and innovative transition enterprises**

<b>Transition enterprises</b>	<b>Innovative Transition Enterprise</b>
<ul style="list-style-type: none"> <li>- Management has a passive role in restructuring process of an enterprise</li> <li>- Management is only formally accountable for results</li> <li>- Management get directions from state</li> <li>- No definite ownership (to set directions)</li> <li>- Management has a poor abilities (and/or capacity) for innovativeness</li> <li>- Routine loved work</li> <li>- Hard to accept (and also use) foreign innovations; “Not invented here syndrome”</li> <li>- The same knowledge base all the time</li> <li>- Innovation is not (appropriately) valued</li> </ul>	<ul style="list-style-type: none"> <li>- Management has an active role in restructuring process of an enterprise</li> <li>- Management is fully accountable for results to the owners</li> <li>- Management must follow shareholders interests (and/or policy)</li> <li>- Management has good abilities (and/or capacity) for innovativeness</li> <li>- Creative work</li> <li>- Quickly accept and uses its own and also foreign innovations</li> <li>- Constantly upgrading knowledge – lifelong learning</li> <li>- A modern understanding of innovation as key element for survival</li> </ul>

Source: Based on Potočan and Mulej (2007), Mulej et al. (2005), Potočan (2006), Kreitner et al (2002), Rue and Byars (1992), Ženko et al (2004) and findings from past project.

From our point of view is crucial cognition that change of ownership is not enough is to change state-owned enterprise directly to innovative transition enterprise (Marangos, 2007; Zinnes et al 2001).

If we compare management practices (i.e. working and behavior) in transition and innovative transition enterprises we can conclude that existing managerial practice in transition enterprises has become inadequate. Therefore the most important issue is how to reduce the gap between existing management practice and needed (and/or required) management practice in contemporary business environment.

Managerial practices (i.e. working and behavior) in transition enterprises therefore must be changed. This leads to the question “How to change management practices (i.e. working and behavior)?” in transition enterprises. One among most important (and also viable) alternative to change management practices in transition enterprises (i.e. working and behavior) is to innovate management.

Innovating management is complex issues since managerial practices (i.e. working and behavior) are imbedded (and/or importantly dependent upon) in local cultural environment (see: Potočan and Mulej, 2007; see also: Rokeach, 1979; Ralston et al. 1992; Ralston et al 2007; Ralston, 2008). Therefore the first step in innovating

management, is to innovate prevailing values/culture/ethics/norms (VCEN) of management; from the pre-industrial (also transitional) VCEN to VCEN of innovative society (and in that context innovative enterprise).

## **5. SOME CONCLUSIONS**

According to our proposed understanding of term transition (e.g. institutional and real) we can conclude, that great proportion of literature dealing with transition mainly from institutional view point (and also often from macroeconomic point of view). There is a perceived (also substantial) lack of discussions which address both views of transition and lack of discussions about transition on organizational level.

In our discussion we make a comparison among transition and innovative transition enterprises and outlined some important characteristics of transition and innovative transition enterprises. Based on several important characteristics we make some conclusions about management practices (i.e. working and behavior) in transition and innovative transition enterprises.

Transitional restructuring of enterprises (in the frame of transition process) emphasize the need for revising (and/or change of) existing managerial practices. One among most important solution (and/or way) to reduce gap between existing management practices and needed management practice, is to innovate management. In that frame VCEN of management must be changed; from pre-industrial VCEN to VCEN of modern/innovative society.

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