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MANAGERIAL ELITE AND MARKET TRANSITION: THE CASE OF SLOVENIA

ABSTRACT

Managers are the most critical resource of corporate restructuring. Given the scarcity of managerial talent in Eastern Europe, the managers became the bottleneck of the continuation of economic reforms and market adjustment. This article looks at the cultural, human, and social capital of the incumbent managerial elite in Slovenia to examine its managerial potential. The survey of transition managers in 160 companies showed that many of the common assumptions do not hold. Human capital of transition managers is higher than assumed. However, education is too often considered the goal by itself and not the means for getting business results. Credentialism is evident from the high priority of formal education and the neglect of management training. Cultural capital is as weak as expected. The incumbent management elite was recruited largely from lower parts of social hierarchy, which makes intergenerational skills transfer an unsuitable substitute for management training. Social capital of transition managers was to a large extent untouched by transition. Managers remained higly involved in business associations. The pattern that has its origin in the socialist system is most likely the result of attempts by managers to stay abreast of changes by networking and lobbying outside of their firms rather than by strategizing and mobilizing within them. All forms of capital contributed to the willingness of the mangers to restructure their firms. However, the attitudes of managers regarding privatization and transition issues had no effect whatsoever on their corporate strategy.

Key words: Management, transition, human capital, social capital, cultural capital.

One of the neglected aspects of transition in East Central Europe has been the role of the business elite. The omission is all the more surprising because it turned out that it was precisely the incumbent business elite that played significant part in the planning and execution of privatization process, and naturally, in the attempts at corporate

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restructuring. No government and parliament, no policy and no legislation could do the work of managers. It is their job to turn firms around by finding new markets, developing new businesses and productively redeploying corporate resources. From the perspective of economic growth and corporate restructuring in the region, the key issue is about capacities of management i.e. their human, cultural, and social capital. It is therefore surprising that so little attention has been paid to the managerial elite during the process of transition.

Several reports written for various donor agencies pointed out the fact that the lack of political will and the lack of capital seemed to be a lesser evil than the lack of competent management (see for example Price Waterhouse 1993). Early in transition it became clear that there would be no substitutes for domestic management. The early warning came from Germany's privatization agency Treuhandanstalt which was unable to attract top managerial talent to the region of East Germany. The grim landscape of East Central Europe and the distance from headquarters of global companies were just too strong downsides for MBA educated Western managers to take such a step in their careers.

The lack of attention to management was primarily a result of the fact that the market transition was coupled with another sweeping change i.e. transition in property rights. The institutions that entered the region in advisory and donor roles such as the World Bank, IMF and others were advocating swift privatization in order to facilitate economic restructuring (Lipton and Sachs 1990). The reasoning behind this policy choice was clearly based on agency theory framework which dominated policy issues. Agency theory is in essence an antimanagerial theory. Its main concern is to develop controls and incentives for managers to align their interest with the interests of owners. Principals, often dispersed, have only limited opportunity to track, monitor, and much less control and supervise day to day operations in the firm. This gives their agents, professional managers, ample opportunities to engage in activities that may not be conductive to the increase of shareholder value but may rather benefit the management (Jensen 1986; Jensen and Meckling 1976; Fama 1980; Manne 1965; Davis and Thompson 1994).

The privatization vs. restructuring dilemma was decided by reference to the agency theory. Privatization got priority over restructuring on the assumption that once property rights were allocated to identifiable owners, they would have interest in taking care of their property. Clear property rights were considered a key precondition for the flow of private investment which would bring in capital and managerial talent necessary for restructuring. This persuasive logic redirected attention of scholars and policymakers from managers to state administrators. Donor institutions were investing heavily to fund and support the establishment of functioning state agencies that would plan and execute the reallocation of property rights. This often created seemingly paradoxical situations where in the name of the creation of free markets, the foreign institutions were helping in the buildup of the regulatory capacity of the state and as a result often created a privatization bureaucracy. Their behavior, however, was perfectly rational from the perspective of the agency theory: only a competent administration vested with the power and legitimacy of the state could swiftly carry out such an enormous task of the wholesale redistribution of property rights in the nation.

Since privatization was deemed to be only an intermediary step toward restructuring, there was huge pressure to execute it overninght. Well known attempts epitomized by Jeffrey Sachs and his vaucher privatization scheme envisioned instant privatizations of entire economies. The results were short of disastrous. While privatization schemes succeeded in quick reallocation of property rights from the state to the new owners, the process was largely formal as the new owners shared nothing with a typical investor assumed by agency theory. A typical investor is the one who freely decides to put his savings into shares of one or more companies. The new owners were made investors by law. Many lacked basic means for day to day survival and could not possibly talk either of savings or of their free choice to invest them. They were not interested in seeing their investment grow but instead were on the lookout to cash out as soon as possible. A stockbroker in Ljubljana Stock Exchange aptly called them 'disinvestors'. This lead to many scandals and a widespread backlash against the proponents of free market policies. It also turned out that even with property in private hands, the real link between ownership and control would take decades to emerge in a long process of ownership consolidation on domestic capital markets rife with insider trading and lack of liquidity.

The emphasis on the allocation of property rights to principals neglected the problem of agents. This led to a few unwelcome surprises. First, there was the lack of governance on the part of the new owners and the management was left to its own devices, a situation Davis aptly called agents without principles (Davis 1991). Instead of reorganizing their business the managers were trying to find ways to grab as big a share of property as possible. This resulted in a wave of spontaneous privatizations which further eroded the trust in a liberal state and regulatory power of free markets (on spontaneous privatization see Johnson and Kroll 1991; Rus 1994, 1999). The second surprise was that after the reallocation of property rights the restructuring in many of the companies slowed down for two reasons: lack of capital and paralyzing ownership structure. It turned out that the bulk of foreign investment happened well before privatization plans were designed and enacted. They preceded privatization rather than followed it which puts the predictions of agency theory at test. Secondly, the harder measures of restructuring involving layoffs and closing down of unprofitable business were often blocked by the workers who, as significant shareholders in their company, objected the business policies that would harm the employees (PraÜnikar 1999).

While economists concerned themselves with the normative model of the redistribution of property rights the sociologists followed suit by taking the normative approach to the study of the consequences of market transition. In particular, they were interested in how the transition affected the fate of the old elites. The data from various studies indicated that there was a high reproduction of all elites and that the reproduction rates were particularly high for the economic elite throughout the region Treiman and Szelenyi 1990). Trying to explain high reproduction rates, sociologists took a normative approach by treating high elite reproduction as an abnormality that required action rather than explanation. The fact that managerial elite to a large extent continued in their posts after the transition was often ironized rather than analyzed. For example, market transition was called nomenclature capitalism and transition was characterized as a movement from ‘plan to clan’ (Stark 1990). The normative view underlying much of the analysis was that after the transition ‘the last shall be first’, i.e. that the old elites in all areas of social life should be succeeded by new elites. This is why, some of the explanations such as capital conversion theory resemble conspiracy theories: namely, the old elite was able to preserve itself in the top positions by using their ties in the system to quickly switch form political to economic leadership positions (Stark 1996, Rona Tas-1995).

Due to the normative focus of both economists and sociologist, little attention has been paid to the key agents of economic transition: the managers. It is now clear that delayed restructuring in transition economies has always been the responsibility of the incumbent managers. There is little systematic information on professional level of the mangers that occupied the leading business positions at the time of transition and the impact their cultural, human, and social capital had on the dynamics of transition. In this article we aim to fill this void. We report the findings of a study conducted among Slovenian managerial elite during the transition. We have two goals in this article, one modest and the other more ambitious. First we want to profile Slovenian managerial elite in terms of their professional characteristics in order to show the managerial potential that is taking on corporate restructuring in the increasingly competitive arena. Second we want to explore the causal link between the managerial potential of Slovenian managers and their behavior during the transition. Who are the managers and how did their particular characteristics affect their strategic choices during the transition are the questions explored in this article.

The study

The data come from the study of Slovenian management conducted in 1994-95 among transiton managers (Rus 1996). The study population were top managers of large and medium size in public ownership that were slated for privatization. The study was concerned with privatization strategies during the entire period of transition which required us to limit our population to those managers who were incumbent in the CEO position by the 1990. The units in this population were the true transition managers: appointed as top managers before the transition they guided their firms through the uncertainties of the transition period.

We used a stratified sample of managers due to the skewed distribution of firms by size. Since we were interested in the managerial elite, we wanted to have sufficient number of very large companies. We created two sampling strata. The first one comprised of firms that employed more than 100 and up to 1000 employees. The stratum of large companies was defined as companies with more than 100 employees. The sampling technique created the sample of 220 companies with 140 medium size and 80 large companies.

We conducted the interviews with the CEO of each of the companies in the sample. The interviews were face-to-face conduced on site in the CEOs’ executive offices. There were only few refusals to participate in the survey. We drew replacements to assure the actual sample size was close to the planned one.

The relevance of the findings for the present time depends largely on the age composition of interviewed managers. In 1995, the average age of mangers was 49 years. The average is less informative then the fact that 55% of managers were less than 50 years old and 75% of all the sample was of age 55 or less. This means that up to 75% of managers could be still running the firms they took through the rough waters of transition. We have not checked the current positions of those managers but given their age and given the general staying power of those CEOs that survived the period of spontaneous privatization that ended by 1995, we have good reasons to believe that the data from this survey is still relevant for the description of current managerial elite.

Cultural capital: Elitness of managerial elite

The notion of cultural capital was developed by Bourdieu in the context of stratification studies (1984). The cultural capital refers to the ‘cultural toolbox’ that an individual acquires by virtue of being born into a family with given values, cultural and consumer preferences, patterns of social and political behavior, and expectations (Swidler 1986). As such it is a broader concept than status inequality because it includes the qualitative dimension of inequality. Traditionally, stratification studies were concerned with the question of universalism and meritocracy and tried to find to what extent the social origin of an individual predicted his or her social status (Haut 1988). Cultural capital goes beyond the purely quantitative dimension of distance traveled from his social origin to his destination and moves further to account for the qualitative dimension of stratification such as the kind of lifestyle did someone assume. The notion of cultural capital is particularly well suited for the study of economic elite. Cultural capital can equip managers with social environment that either promotes or inhibits learning, professional development and the ethos of responsibility. Cultural capital can also provide the managers with past experience and skills and can shape attitudes regarding economy in general and management in particular. During transition, managers were faced with unprecedented uncertainty. As institutional structures and corporate routines were all in flux, the managers could rely on their cultural capital for guidance. Thus the question of ‘How elitist is managerial elite in Slovenia?’ was particularly important in the period of transition because cultural capital provided a stable point of reference for managers trying to formulate strategic responses to the challenges and opportunities of market transition.

Table 1
Social background of Slovenian managers

	frequency	%
Father's education		
incomplete grade school	12	7
completed grade school	35	21
vocational school	52	31
high school	38	23
college (2 years)	15	9
university (4 years)	12	7
MA, Ph.D.	4	2
Father's occupation		
Farmer	32	21
Worker	48	31
clerical worker	12	8
Professional	24	16
Manager	32	21
free profession	4	3
self-employed	2	1
Entrepreneurs in extended family		
No	119	71
Craft	27	16
Trade	12	7
Other	10	6

Social background of Slovenian managers was conspicuously non-elitist. Managerial elite was recruited from all segments of the social structure of their fathers. The social origin of most managers were humble: 28% had fathers with incomplete or completed grade school, and the next 54% had vocational or high school degree. Only 18% came from families with fathers having college degrees or higher. Even more important is professional background of their fathers. There were 21% of managers whose fathers were farmers with very little formal education. More than one third (39%) had middle class fathers: workers and clerical workers. Among fathers who were workers, they came from the proletarian aristocracy: most of these fathers completed vocational schools meaning that they were among the highly regarded skilled workers. However, 36% of managers were recruited from the families with fathers in managerial (21%) and professional (16%) occupations. These fathers were generally highly educated although the managerial profession was at the time of their fathers open also to those with vocational or high school education. There was a significant shift in the social background of managers over generations. Younger generations of managers were more often coming from families with fathers in management positions (33%) than from the families where fathers were farmers (6%). By comparison, the picture for the older generation was reversed. Older managers were more often recruited from families with farming background (34%) than managerial background (8%).

The literature suggests that the entrepreneurial family background of individuals played an important role in their successful adaptation to the market economy (Szelenyi, 1988, Nee 1989; 1996; Rona-Tas 1995). Thus, the lack of privileged cultural capital could be compensated by entrepreneurial culture and could serve as an asset of transition managers. While the majority (71%) of managers came from families who had no experience in private business, almost one third (29%) had at least someone in the extended family engaged in either craft (16%), trade (7%) or some other undertakinging. A relative large representation of managers with entrepreneurial social background in the ranks of transition managers was one indicator that they probably possessed some management skills that played to their advantage in their disproportionate promotion to the manangement positions. Based on this we expected that the transition managers with the entrepreneurial family background would be more responsive (entrepreneurial) to the opportunities of privatization than other managers. We were surprised to find just the opposite. The managers with entrepreneurial family background were less likely to develop and implement privatization strategies than other managers. Behind this surprising finding is a simple explanation that involves the structure of private enterprise in the pre-transition Slovenia. The was majority of private business sector were very small family owned and run craft shops which never developed any formal organizational structure or strategic planning. While entrepreneurial social background gave transition managers some advantage in the day-to-day operation of the firms, they were lacking strategic aspects of management that were necessary for the formulation of privatization strategies. This aspect of cultural capital probably contributed to their lack of strategic response to the opportunities of privatization.

Overall, the transition managers can be characterized as the elite in formation. Their cultural capital is defined by the fact that their social origins represent the entire spectrum of the society. Given that the major concern of the transition economies is the quick development of highly competent managers the cultural capital revealed in this analysis represents a weak starting point. Their lack of elitist social background is by no mean their major liability. However it might represent a hurdle in the environment where playing a catch-up game will require cutting corners and taking shortcuts. That social capital might play an inhibiting role in this process is evidenced in the analysis of managers of entrepreneurial social background. In the new situation which required making strategic decisions under the pressure of high uncertainty, it was the managers from entrepreneurial families that failed to take action. However, the managerial elite is slowly changing with new generations as younger generations of managers were more often recruited from managerial families.

Human capital

Transition to competitive market environment imposed new demands on management. Whether or not they could respond adequately to this new environment depended on their acquired managerial skills as well as on their capacity to learn and adjust to the new situation. In short, their successful adaptation depended on their human capital. Baker defined human capital as those resources possessed by economic actors that increase their capacity to add value in the process of production (1975). Both universal knowledge acquired in the course of formal education and practical experience acquired at work are thus the elements of human capital.

In this section we look at human capital of transition managers in order to assess their capacities for successful response to the challenges of transition. First, we examine their formal education as a resource that would prepare them to deal with new situation based on their abstract knowledge. Than we look at their career patterns in order to gain an understanding of their experience they brought into their jobs as transition managers.

Education

Formal education of transition managers is a critical resource in the firms' transition to competitive markets not only because it increases the capacity of transition managers for learning, understanding, and leading the change. It also affects their selection of new generation of managers. To what extent the transition managers are comfortable with the new generation of highly educated ambitious candidates depends on their own human capital. Therefore, the human capital of transition managers can have a long term influence also on the level of professionalization of Slovenian management.

Majority of managers (66%) held university degrees and additional 24% held a two year college degree. On the extremes, there were only a few with postgraduate education but a surprising 8% with only a high school degree. We were surprised to find that high school graduates, while few, were not concentrated only in the oldest cohorts of managers but were instead equally distributed across generations. On the other hand we found that the importance of university degrees increased over generations relative to college degree. Younger generations of management were slightly more likely to have university degrees than their older colleagues. The trend was weaker than expected in spite of rapid expansion of educational system and proliferation of university education. It seems that prior to transition the college degrees were often sufficient for promotion to the executive positions in business enterprises.

Table 2
Education of Slovenian managers

	freq	%
Education		
high school	13	8
College	40	24
University	110	66
Graduate	5	3
Major		
Economics	76	46
Law	16	10
Social sciences	22	13
Technical	51	31
Continuity		
Continuous	139	85
Interrupted	24	15
Specialization after college		
No	114	69
Graduate	12	7
MBA or equivalen	20	12
Specialization	20	12

This rises a question about the relevance of education for promotion prior to the transition: to what extent were formal degrees a consequence rather than the cause of promotion top management. It was often suggested that many managers lacked formal education for their job but would earn their degrees only after their promotion in evening classes or weekend seminars. To see if such claims have any merit, we distinguish between regular degrees and those acquired on the job i.e. between regular and interrupted education. The data show that the phenomenon of interrupted education among top managers was not nearly as prevalent as suggested. The vast majority earned their degrees in a regular course of study (85%). Only 15% obtained their current degrees at a later time when they were already employed. Not surprisingly, the interrupted education was more typical of older than younger generations.

The major concern regarding the Slovenian managers is not so mush their level of formal education but rather their lack of commitment to postgraduate and other forms of continuous education. After managers received their formal degrees they stopped investing in further education. Almost 70% of the managers said they had no formal training after college. Managers with a formal MBA or equivalent were very few (12%) while those with other graduate degrees were even fewer (7%). Another 12% said they attended some kind of executive education. This suggests a high degree of credentialism in the firms where formal degrees were overvalued while specialist training was treated as cost rather than investment. The result was not uneducated management but management with highly outdated knowledge and a poor practice of professional development.

East European managers were often perceived to have predominantly technical backgrounds which allegedly made them more rigid in adapting to the new political and market environment. This is not the case with Slovenian transition managers. Most of them had background in economics (46%), engineering (31%), social sciences (13%), and law (10%).

Overall, educational profile of Slovenian managers was not outstanding. While the majority of managers had university degrees obtained mostly during the regular course of study of economics and engineering, there were also two disturbing facts. First, there was no trend of significant improvement in formal education from one generation to another. The youngest generation of transition managers in the sample reflected the educational achievements of the oldest cohorts. The second disturbing fact was the lack of commitment to continuous education evidenced by the fact the majority of managers were concerned only about their formal degrees while most neglected any kind of non-degree training. In the light of these two facts, one can wander about the dilemma of succession that transition managers will be facing in a few years time. On the one hand the pool of well educated candidates for executive jobs with MBA or similar degrees is steadily growing. On the other hand there are loyal old friends with terrific experience but lacking in formal education and training. The question for every transition manager will become whom they should promote. If they reward people for their loyalty and promote the experienced managers they risk alienating the young turks who might leave for a faster career in other firms. This could rob the firms of much needed strategic resource and delay professionalization of management in the established firms.

The emphasis on formal education is justified by the fact that it directly affects the behavior of managers. The impact of education on the capacity of managers to restructure their firms can be glimpsed from the following results. The lack of formal education was clearly an impediment to restructuring. Managers with vocational and high school degrees were much less likely than other managers to restructure their firms. They mostly waited for the external environment to show them the way through the uncertainties of market transition. A two year college education already made a difference. Those managers proactively moving to change their firms but their responses were very cautious risk averse. For example, their preferred privatization strategy was a highly regulated state supervised sale of company shares. University education on the other hand made for the biggest difference. With the exception of engineers, they favored more aggressive approaches to restructuring and privatization of their firms. It was not just more tolerance for risk. They also went further in their attempts to adjust their business to the new demands of the market. Only the engineers from among the university educated managers displayed a highly conservative attitude toward market transition. In general they favored less change and when choosing a change strategy they clearly favored the one with the most predictable outcomes.

Career

Geographical mobility

One of the most typical features of Slovenian managers (and their labor force) was their low geographical mobility. Table 3 provides some telling data. More than 60% of interviewed managers worked in their hometown i.e. the same place where they were born. This was not simply the effect of uneven distribution of population in one or two centers and sparsely populated periphery. Slovenia had explicit policies of decentralized industrial development that brought factories to villages and not the other way around. As a result only 35% of all interviewed managers were located in two major urban-industrial cities of Ljubljana and Maribor. The rest were dispersed in various smaller cities and towns. Immobility in metropolitan areas turned out to be 50% which was significantly smaller than in non-urban areas where it reached 66%. Territorial immobility was negatively related to age. Managers up to 45 years of age tend to be more often located in the periphery compared to the managers over 55 years of age who are located in the metropolitan areas. In addition, younger generations of managers were more often located in their hometowns than older generations. Thus, we found less mobility among the younger generation of transition managers, a finding that we consider surprising.

Inter-firm mobility

The lack of territorial mobility was paralleled with a low inter-firm mobility of Slovenian management. A large proportion of managers wee life long employees of a single firm. As it is evident from the Table 3, about 34% of interviewed managers worked only in their current company. Of these, most of them started as employees (89%) and worked their way up through the company hierarchy to the top. Only a few (11%) entered the firm in some managerial capacity in one of the functional areas like manufacturing, finance, marketing, or human resources. On average it took 16 years to reach the top for the managers who stayed with one single company but there was a great deal of variation. Staying in one's hometown and working for the same firm throughout one's career were two separate yet parallel tendencies.

Table 3
Career patterns of Slovenian managers

	N	%
Geographical mobility		
Hometown	102	61
Elsewhere	66	39
Entry position in the firm		
Management	54	32
Employee	25	15
Sales	70	42
Hired as CEO	19	11
N of previous employers		
0	56	33
1	51	30
2	34	20
3	14	8
4	13	8
Jobs outside business		
Never outside	127	76
Local government	18	11
National appointment	13	8
Communist party	3	2
Social services	7	4
Type of career		
Inside	57	34
Firm to firm	70	42
Firm - politics - firm	20	12
Politics - firm	13	8
Social services - firm	8	5

The managers who had held other jobs before coming to their current firm represented 66% of the sample (see type of career). One half of them (48%) entered as top executives and 17% were hired as middle managers in the current firm before being promoted to the top. The rest (35%) were hired as employees; for them a change of job clearly did not mean a promotion. It has been often suggested that external appointments of executives to firms were of political nature. The data do not support this claim. Those who entered the firms as top managers did not come exclusively from political positions. About half of them never worked outside business environment (54%). Some 20% previously worked for local governments and another 20% held political appointments of national character. Altogether, 40% of such appointments were filled by managers with some political background. For 41% of them this was only their second job and for

23% it was their third job. At the time of the interview, no managers held more than 4 jobs prior to their appointment as CEOs in the firm in our sample.

Types of careers

One of the ways to indirectly asses professionalization of Slovenian management is to look at the degree of separation of managerial and political careers. The data regarding five types of career patterns among Slovenian managers indicate that political and managerial careers were separated to a large degree. First of all, about 76% of all interviewed managers never worked outside business firms. By far the most frequent type of career was to move from one firm to another (42%) closely followed by internal career (34%). Both are exclusively business careers. Those 12% of managers who got involved in politics usually did so by taking a break in their careers to serve in local governments (60%) or national political institutions (40%). It was common for these managers to take administrative leave from their firm for a period of four years and than return to their own or some other local firm to continue their managerial careers, a move that was often linked with promotion. While we have no data on the outflow from managerial ranks to the politics we know that there were only 8% of managers who migrated in the other direction i.e. from politics to management. The small group of political managers was recruited from national and local political institutions in roughly equal proportions.

While it was uncommon for politicians to become managers, political experience had clear benefits for the managers. Crossing the boundaries between economy and politics was not frequent; only 25% of all managers did it. But those who gave it a try were rewarded with faster promotion. When they left their political appointments they were much more likely to enter the companies as top executives than their colleagues who moved from one firm to another. Those who went from business to politics and back had a 60% probability of returning as top executives. The managers who had only political experience had even higher 70% probability to enter the world of business as top managers. These numbers contrast with those for managers who moved between business firms among whom only 48% were hired as top managers in their current firm. Political experience was therefore instrumental in opening a direct access to the executive suite. This meant that in their ascent managers with political experience could bypass a time consuming climb through internal managerial hierarchy. Faster promotion was therefore the second benefit of political experience. The Table 4 shows the proportion of managers who were promoted at relatively young age by different career types. The baseline is internal career type. Only 45% of these managers were promoted to the top by the age of 40. Inter firm mobility was in this respect as helpful as a stint in politics; respectively 56% and 60% were promoted to the top before turning 41. But the real benefit accrued to the managers coming from political careers: 85% of them were appointed to top management position before their 41st birthday.

Table 4
Age at promotion by career type

Type of career	% promoted by the age of 40	z score
internal	45	-1.9
firm to firm	56	ns.
firm - politics - firm	60	ns.
politics - firm	85	2.3
social services - firm	50	ns.

Note: ns. - not significantly different from the expected frequencies under the null hypothesis of no association

These career types had clear implications for territorial immobility. The most immobile were those who built their careers in a single firm: 73% of them never left their hometown. Surprisingly, territorial immobility remained high also for those managers who moved from one firm to another (56%) or for those who started out in politics before going into management (54%). Only those managers that alternated between business and politics experienced significantly lower rates of territorial immobility than the others (40%) suggesting that their stint in politics served as a springboard for their promotion.

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The analysis suggests that a typical managerial career began when one returned to their hometown after graduating from university away from home. Often it was the scholarship from a local firm, the internships, and local connections that brought a young person back home. Fresh out of school, the managers got started in their local community where their local friends, acquaintances, and sponsors helped them to win trust necessary for promotion. Once at the top they could expand their networks beyond their local reach to encompass contacts from the national business circles which provided them with opportunities to move to the city or to make other career moves. On average it took 16 years to reach the top job in a gradual promotion through the ranks within a single firm. For mobile managers the path to the top could be significantly shorter. There is evidence to suggest that mobility between firms or mobility between firm and politics could speed up promotion to the executive suite. But mobility by itself brought just limited benefits. What really seemed to count was political experience which was rewarded by promotions at relatively young age of 40 or younger. In spite of its lures, political involvement of managers was very limited. A vast majority of managers never worked outside the business firms and a good one third never changed their employer. While the latter points to the relative immobility of managers and the major deficiency of managerial labor market, the overall separation of business from political careers suggests that there was respectable degree of professionalization of management in Slovenian enterprises. Such career patterns help dismiss the misleading notion that the managers appointed during socialism were in a large part the members of political or party nomenclatura.

High level of managerial immobility but at the same time high level of professionalization of transition managers are important for the ways the managers responded to market transition. High immobility resulted in a high level of embeddedness of firms and their management within the particular social and political structures of their respective local communities. Their embeddednes in their hometown community compelled them to pursue not only their own interest but also the interests of their own life long friends, neighbors, and other members of the community. On the other hand, the high level of professionalization of transition managers was the reason that market transition did not find them unprepared. As being primarily involved in the running of their companies, they were committed to restructure and preserve their firms. Significant finding in this respect is that in spite of high levels of embeddedness, the firms with hometown managers were not change averse. Compared to others they were more likely to initiate cautious restructuring strategies.

Social capital: Involvement outside the firm

In addition to their managerial jobs, managers often get involved with professional associations, sit on the boards of directors of other firms, and take part in political or civic organizations. Numerous studies of Western management have pointed out the fact that interlocking behavior is in fact a subtle form of corporate governance (Useem 1984, Mizruchi and Schwartz 1987, Davis 1991). The directors in supervisory boards served as bridges for communication and cooperation among competing or interdependent firms. In the context of Eastern Europe managerial involvement outside the firm has often been characterized in political terms as a source of informal political interference with the management of firms. In this article we treat external ties of transition managers in terms of resource dependence theory (Pfeffer and Salancik 1978). In this article we are interested in the issue of social capital, that is, to what extent were the managers linked to the relevant constituencies outside the firm and thus exposed to various sources of external influences. Whether those influences promoted or inhibited their commitment to restructuring is an empirical question.

Overall, about 60% of managers held appointments either on boards of directors of other firms, served on boards of banks, or held appointments in professional organizations, notably, the national chamber of economy (Table 5). There was no tendency of systematic overlap between economic appointments: serving on a board of a firm did not increase the probability of holding a seat in the chamber of commerce (r=.08, p>.05) or serving on the boards of banks (.11, p>.05). This points to two important conclusions. First, there was a widespread participation of Slovenian transition managers in corporate governance of Slovenian firms. Second, the broad involvement and the lack of overlap of functions suggests that business elite has no inner circle, i.e. a core group of business leaders who set agenda for the entire business community and who often hold multiple appointments in business, political, and civic institutions (Useem 1984). With respect to their involvement in economic institutions, the transition brought almost no changes. More than 60% of those who were involved with the Chamber of commerce before 1990 were involved also after 1990. And those who were not involved before the transition remained uninvolved after it, a strongly significant tendency (r=.26, p<.001).

Table 5
Political and economic appointments of managers

	Freq.	%
Economic Appointments		
Boards of directors of firms		
No	118	70
Yes	50	30
Boards of directors of banks		
No	119	71
Yes	49	29
Business Associations before 1990		
No	120	71
Yes	48	29
Business associations after 1990		
No	115	68
Yes	53	32
Overall Involvement in Business after 1990		
No	66	39
at least one appointment	102	61
only one	59	35
Two	36	21
all three	7	4
Political appointments		
Political appointments before 1990		
No	114	67.9
Local	37	22.0
National	17	10.1
Political appointments after 1990		
no	139	82.7
Local	13	7.7
National	16	9.5

Political appointments however follow a different pattern. Before the transition 32% of the managers were involved in political institutions, mostly on the local level (22%) and the rest on the national level (10%). After transition, there was a notable decline in political involvement of managers. Overall rate came down to 17%. While the involvement in national politics remained at 10% the major decline came on the local level where the rates dropped from 22% before transition to 8% after it. These patterns illustrate the nature of political transition in Slovenia. Heavy involvement of managers in local political and social affairs before transition was often a consequence of the exceptional economic significance of a firm in a given local community. The relationship between such firms and local governments were always heavily embedded in the wide spectrum of local affairs which often made them work together. Political transition tore the traditional network of local ties and brought in new political elites ones suspicious or hostile to the managers whom they perceived as the survivors of the compromised old regime. Sharp decline in local political appointments of managers most likely reflect the choices of the new local elites rather than choices of the managers. The stability of managerial behavior is obvious from their continuing involvement in economic institutions which were not exposed to the volatility of political transition. This gave Slovenian economic transformation a signature character. While political environment changed drastically, the important ties within economy were preserved in spite of political changes that gave it much needed continuity throughout the uncertain transition period.

External involvement of managers can not be easily explained in terms of background characteristics. The only significant predictor of external involvement seems to be the type of career of managers. Involvement in economic institutions was most likely for managers who started their careers in business and held a political job before returning to business. This finding is somewhat surprising but it points to the importance of mobility. In our view it suggests that mobility between business and politics helped managers to establish much wider network of contacts than managers who never moved or those who were mobile between firms. Political appointments have even less structure. Before the transition, local political appointments were, understandably, more often held by managers outside of the two big metropolitan areas. After transition even this tendency faded away as a result of political change described above.

Managers and the issues of transition

In this final section we consider attitudes of transition managers toward the issues of transition. The attitudes are the product of various influences. They are shaped by the interaction of social, cultural, and human capital discussed above. As attitudes are the prelude to action, they convey important information about the capacity and commitment of transition managers to restructure their companies. The intellectual response to transition involves three steps: evaluation of available personal experience, evaluation of the prospects of transition-privatization, and the existing word-views which put the previous two in perspective. Below we take a look at each of the three dimensions.

Experience With Transition

Table 6 summarizes managers' evaluation of changes after transition in terms of their own experience. In a four-year period from 1990 to 1994 managers noted important improvements in the relationships with their business partners. More than one half of managers agreed that the relationships with their business partners improved after the transition. Only 14% experienced a deterioration of relationships with partners after the transition. The relations within the firm (i.e. management-management and management-labor relations) followed a similar pattern: 46% noted improvement while 20% noted that the changes were to the worse. In their personal life, 66% managers experienced no change while 23% noted significant improvement. In contrast with this general positive experience with transition were the relations of companies with the state. Only 20% noted improvement while 40% of all managers complained of these relations to have deteriorated over the course of transition. In our interviews it became apparent that the managers resented the disruption of a 'corporate safety net' that existed to some extent before the transition. The new governments were much less responsive to the plight of enterprises for subsidies, tax breaks, and other forms of special treatment. But what enraged the managers most was not so much the introduction of hard budget constraint but the arrogance and incompetence of new administration. They were critical of the rise of new clientelism of the partisan government and its preferential treatment of ideologically sympathetic managers and their firms. Our interviews suggest that this is what explains a massive dissatisfaction with the state.

Table 6
Evaluation of experience with privatization

	freq.	%
Relations within firm		
better	78	46
equal	57	34
worse	33	20
Relations with business partners		
better	94	56
equal	50	30
worse	24	14
Relations with the State		
better	32	20
equal	68	40
worse	68	40
Relations in personal life		
better	38	23
equal	111	66
worse	19	11

Since the central purpose of privatization was to limit involvement of the state in the economy it is ironic that the relations with the state assumed such a central place in the lives of Slovenian transition managers. Centrality of the state became apparent in the analysis that showed that the relations with the state exerted significant influence on the quality of the relations in all other spheres. Improved state relations significantly bettered the relations with partners ($r=.35$, $p<.001$) and inside constituency ($r=.22$, $p<.01$). But most surprisingly, they also enhanced personal relations of managers ($r=.29$, $p<.001$). Not only is the cozy relation with the state a source of better business practices within and without the company but it also brings happiness to managers' personal life!

Prospects

Three broad views about the prospects of market transition emerged in Slovenian public opinion. One was unabashedly optimistic linking privatization to economic efficiency. The second was skeptical expressing doubts about the economic rationale of privatization. The third view was outright critical of privatization pointing to the disturbing rise in income inequality and its potential for social unrest. Results are reported in the Table 7. Roughly one half of the managers agreed with the optimistic view that privatization would increase economic efficiency. Managers were split on the skeptical view that privatization might not result in economic gains but might instead detract the efforts from genuine economic transformation. There was an equal percentage (37%) of those who shared this view and those who disagreed with it. Critical view of privatization was shared by almost one half of managers (47%) who expressed fears that privatization might have negative consequences like increase in inequality and social unrest.

Table 7
Prospects of privatization

		Freq.	%
Privatization leads to economic efficiency			
Optimists	agree	87	53
	middle	36	21
	disagree	43	26
Privatization is unnecessary redistribution distracting restructuring			
Skeptics	agree	62	38
	middle	41	25
	disagree	61	37
Privatization leads to inequality and conflicts			
Critical	agree	79	47
	middle	35	21
	disagree	53	32

These three views were not all mutually exclusive among themselves. The two views that most polarized the managers were the efficiency view and the skeptical view. Strong negative correlation between the two ($r= -.46$, $p<.001$) indicated that the managers who agreed with efficiency view had a strong tendency to disagree with the skeptical view and vice versa. On the other hand, the managers who were skeptical about privatization had a strong tendency to express concern over the negative consequences of privatization resulting in a positive correlation between skeptical and critical view ($r=.32$, $p<.001$). The concern over the consequences of privatization was shared to much lesser degree by those who subscribed to economic efficiency.

The views of managerial elite on key element of transition - privatization - showed that the divide among the managers was not among those who support it and those who object it. The divide was among those who were optimistic and those who supported it with skepticism. Their skepticism was primarily due to the concern about inequalities and heightened social conflicts that transition would bring along.

World Views

World views play an important role in any action system because they provide a framework of meaning which actors refer to while making their choices. In order to measure world-views we asked the managers who should carry the responsibility for the effects of privatization. Liberal position asserts that individuals carry full responsibility for their actions and their consequences. Success or failure are viewed as results of smart or poor choices. Social democratic view has a strong notion that certain social rights should be guaranteed to every member of the society by the rule of universalistic impartial law. The state in social democratic view plays the central role as the embodiment of the law and guarantor of rights. The third, conservative, view favors tradition and values linked to family and community. Conservative, communitarian argument proposes that responsibility for individual fortunes should be born neither by an isolated individual nor by impersonal state but by the caring circle of relatives, friends, neighbors and other caring individuals organized in charities.

Two main blocks of managers emerged from our analysis: liberal and social democratic. There were 53% of managers who agreed with liberal views and 56% who agreed with social democratic position. There were only 14% of those who agreed with the conservative view. Given the fact that all of the managers in our sample were appointed before transition the data reveal a significant heterogeneity in their world views. In contrast to the often repeated opinion, transition managers did not all subscribe to the communist ideology. In fact, the managers were roughly evenly divided between the social democrats and the liberals. The two choices were incompatible resulting in a strong negative correlation ($r= -26$, $p<.001$). The conservative views were incompatible with social democracy but were relatively close to the liberal views which was probably the result of their common distaste for the state. There was also a sizable degree of overlap between the liberals and social democrats. About 25% of all managers were in full agreement with both. This finding points to an important trend among Slovenian managers, namely, a trend toward a hybrid and pragmatic corporatist model. In short, any fears that incumbent managers might work in favor of the return of communism are without any grounding. Many managers embraced liberal views but important segment has come to favor a pragmatic non-ideological corporatist model.

Table 8
World views of managers

	Freq.	%
Who should carry the responsibility for inequalities produced by privatization?		
Liberal: Everyone for oneself		
Agree	89	53
Middle	48	29
Disagree	30	18
Social - Democratic: The state		
Agree	93	56
Middle	39	23
Disagree	35	21
Conservative: Family and community		
Agree	23	14
Middle	37	22
Disagree	107	64

The results presented above indicate two important findings. First, the incumbent managers differed among themselves not only in their evaluation of privatization experience and the evaluation of prospects of privatization but also in their world views. This should surprise those who assume that managers appointed in the previous regime could be easily treated as an ideologically homogenous group. Second, their attitudes and views had little direct effect on privatization. Whether a manager privatized or not had little to do with their experience, attitude toward privatization or their world views (Table 9). This null finding is an important proof of the irreversibility of transition: those who feared that communist, socialist, and social democratic ideological commitments of managers might block the reforms were proven wrong. The behavior of managers regarding the restructuring and privatization of companies is independent of their attitudes toward transition. The attitudes themselves were supportive of the general direction of reforms. It seems that the dynamics of economic transformation on a firm level was not directly related to the wishes and ideals of the managers but had a logic of its own.

Table 9
Logistic regression of stayers on experience with transition, prospects of privatization and the world views of managers

	B	S.E.	Sig.
Change of relationship inside firms	.2636	.2079	.2048
Change of relationships with partners	.3655	.2065	.0767
Change of relationships with the state	-.3051	.1992	.1256
Optimists: privatization = efficiency	-.0072	.1762	.9676
Skeptics: privatization=distraction	.2524	.1684	.1340
Critics: privatization=inequality and conflicts	.0319	.1538	.8356
Welfare: each for himself	.0550	.1625	.7349
Welfare: the state	.0672	.1696	.6920
Welfare: the family, charity	-.3046	.1697	.0726
Constant	-2.1256	1.5124	1.1599
N	163		

* *Stayers were defined as those managers who chose to avoid any kind of restructuring of their firms. They are contrasted here with the movers who implemented at lest a modest change program in their companies. Stayers were coded as 1, the movers as 0. The positive coefficients indicate the positive relationship with the stayers' no-change strategy.*
* *The measurement scale on attitudinal questions was from 1 'completely disagree' to 5 completely agree'.*

Conclusion

One of the lessons of the past ten years of transition to market economy in East Central Europe has been that the economic recovery and growth depends on the companies and their managers much more than on the bureaucrats and their policies. Since the region was not able to attract managers from the West in larger numbers, the depth and success of economic restructuring depend almost entirely on the quality of transition management.

In this article we looked at the potential of Slovenian economic elite for leading the change and corporate restructuring in Slovenian companies. We looked at three areas that define the managerial potential for action: cultural, human, and social capital. We found an uneven development of each capital with Slovenian economic elite.

Cultural capital was low due to the very democratic recruitment to managerial elite during the socialist era. Economic elite was promoted from all social strata bringing along a wide spectrum of social and professional backgrounds. Their cultural baggage lagged behind their current status and the challenges they were facing in the transition. We found that the economic elite became more elitist in younger generations as young managers were more often coming from families of managerial background. A self reproducing managerial elite is by no means an ideal that anyone should advocate. But in the period of transition where managerial talent and skills were scarce, intergenerational flow of experience and support should be considered an asset for the company and the economy. As management becomes more professional, the elitist aspect of economic elite will become less of an issue.

Human capital had two dimensions: formal education and management experience. With regards to the former we found that the majority of economic elite was well educated but that that there was a huge void in the area of continuous education, non-degree, specialist straining. While it is a norm in the world class companies that top talent returns to condensed executive programs every few years for resharpening, there was no commitment to systematic executive development among the Slovenian economic elite. The result is a formally educated elite with largely outdated knowledge.

When we looked at the experience of Slovenian economic elite we found a high level of professionalization. Most of transition managers had lifelong career in the economy. The finding puts to rest those speculations that claim that transition managers were essentially political appointees. We found very few cases of political career pattern that would start in the politics and end up in the economy. However, we found that the economic elite suffered from the lack of mobility. The majority of managers never left their hometown or region and thus remained locked in the confines of their regions.

Social capital showed a large degree of continuity in the involvement in economic associations. Social networks in the economy survived the years of transition which is a precious asset for the entire economy. Social ties among managers are the key asset for a small economy because they foster cooperation and trust among the companies that are proved to be the major accelerators of economic success (Sable, 1993).

While the majority of economic elite was in favor of economic transition there were clearly two different camps. On the one hand were the optimists who saw market transition as the path to efficiency and prosperity. They also espoused individualism and the diminished role of the state. The other camp supported market transition but approached it with a degree of skepticism, because of the inequalities and conflicts it might generate. They saw the state as an important partner in the formation of the capitalist social order. While social, human, and cultural capital influenced the attitudes of economic elite toward transition they did not determine its actions. Regardless of their attitudes the transition managers were restructuring and privatizing their firms. The fact that economic strategic behavior was determined by different forms of capital but not by the attitudes of the actors suggests that the study of social, cultural, and human capital of economic elite is more consequential than the study of their attitudes and values. Policy implications of this conclusions are clear and sober: there needs to be direct investment in the increase in the all forms of capital while the efforts to change the attitudes of the economic elite can wait for the latter day.

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