

# Managing Human Resources in Central and Eastern Europe

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## Syllabus

Introduction : Aims and methodology

Section 1. The Central and Eastern European socio-economic environment

Case study : Forming groups of homogeneous countries in terms of history, culture and socio-economic features.

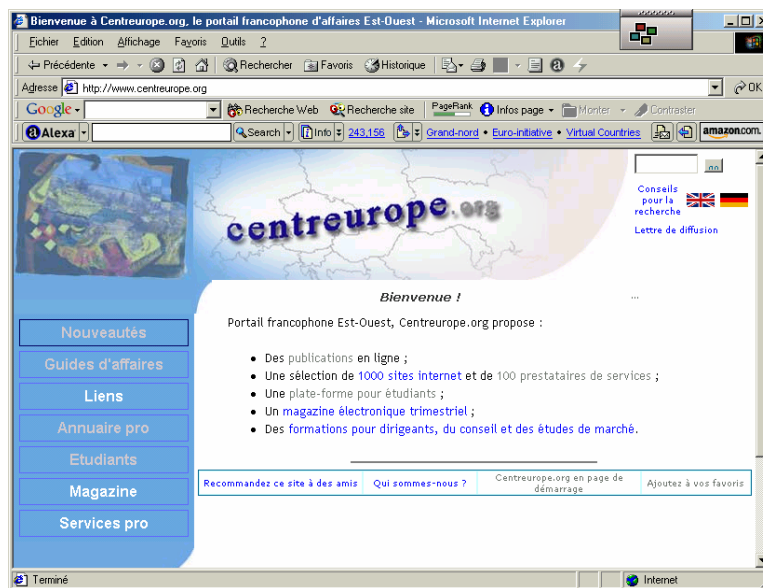
Section 2. Managing Human Resource in Central and Eastern Europe

Case study : Focus on the Czech Republic

## Aims of the course

Designed for future HRM specialists, this course will aim at acquainting the participants with the Eastern European business environment.

The topics range from the political, cultural and economical issues to managing human resources, with a special focus on knowledge and skills, tools & techniques and specialized sources of information. The course is available on the internet, at the web address <http://www.centreurope.org>.



## Bibliography

G. Hofstede, Culture's consequences, sage, 1980.

P.-X. Meschi, Longevity and Cultural Differences of International Joint Ventures: Toward Time-Based Cultural Management, Human Relations, vol. 50, n°2, 1997.

W.R. Pendergast, Transforming Management in Central Europe, in R.C. Culpan et N. Kumar, Transformation Management: Organizational Reforms in Post-Communist Countries, Westport, CT, Greenwood Publishing, 1995.

V. Srica, Managing people in Central Europe, in T. Garrison, D. Rees, Managing people across Europe, Butterworth-Heinemann limited, 1994.

Note: this bibliography is only indicative. Browsing the given websites will prove more useful.



**Feature** (from <http://www.businessromania.com>, February 2004)

## The rise and fall of Republica

**The world's 5th largest steel seamless pipe maker Republica has bitten the dust. The plant's decline started with bad management and ended similarly, following an apparent Romanian industry pattern.**

### **Decline begins in 1992.**

In 1990-1992, some new equipment for the pipe drawing unit at Republica was brought in. Following that, the unit got the ISO 9001 quality certificate in 1994 from Germanischer Lloyd Certification GmbH, and the German TUV Saarland qualification. This was also the period that Republica's fall from grace began. "The problem with the new equipment was a new law introducing retroactive custom taxes. We had to pay taxes for that equipment without knowing we had to, and that's when Republica started to crumble," says Gabi Bosnagiu, a former foreman-mechanic at the plant and a "Nicolae Malaxa" union member. Bosnagiu is now part of the "Committee for asset evaluation", in charge of selling whatever is disposable in the plant in order to pay backwages. He said that the equipment bought in 1992 cost millions of USD, and the Leu's fast depreciation against hard currency such as the US dollar made it impossible for the factory to make payments, as it still cashed checks in lei from its clients. Another factor contributing to Republica's demise was bad management. "We did not have access to valid information on our Western competitors. We did not know until later that Mannesmann, Voest Alpine and Grand Prideco were our worldwide competitors, and these companies came on our markets and simply crushed us, owing to our bad management," he added. In the 1990s, Republica was producing all of the seamless steel tubes and pipes needed in the energy field, and 80 percent of the output was exported. "There were some 30,000 items produced. Republica also offered training under communism, and after, to all of the new tube companies in the country - Roman, Iasi, Zalau, Zimnicea and Slatina. Ironically, all of those smaller plants are now profitable, while Republica, which once reached a maximum capacity of 174,000 tons of tubes per year, is not," the union member said.

### Production ceases, Russians fail to pay

In December 2002 the electricity and gas were cut off, because the bills had not been paid. The plant ceased activity. "In April 2003 [a month after the plant was sold] we started producing again and every worker was full of hope that the plant would return to profit. It was a psychological rebirth, which, unfortunately, didn't last long," says Bosnagiu. In May 2003 the first fault lines appeared: the raw materials stopped arriving, and the laminator stopped; the drawing section was dry of raw materials at the end of May. "At the end of May 2003 the power and gas were cut off again because the suppliers weren't paid," says Bosnagiu. The unions again started protests, as their salaries had not been paid since November 2002. APAPS was directly involved in the post-privatization process, so it mediated the union-management conflict. "APAPS asked the Russians to pay the other two tranches of the sell-off price, which were never received." However, the consortium said it invested \$5 million in raw materials and \$1.4 million in machine tools. "The Russians made a huge mistake when they evaluated Republica. They finished paying millions in raw materials, some salaries and the first tranche of the money owed to APAPS, and the final amount exceeded the initial sum in the buy-out contract," says APAPS-appointed special administrator Mihai Baldea. From 2000 to 2002, Moody bought raw materials from Russia and Ukraine, and Republica worked for them within a Lohn system: all of the finished tubes were exported back to Russia. Prior to that date, Sidex Galati, CS Resita and Siderurgica Hunedoara were Republica's main raw materials suppliers. "The entire industry was inter-connected: once the prices for international raw material dropped, the local factories' prices remained high, so we had to re-orient towards foreign suppliers."

### Social pacts should have kept workers satisfied

Following protests, a second social pact between the Russians, APAPS and the unions was signed at the end of June 2003, including clauses regarding backwages. "APAPS demanded that the unions grant a time-out, or a grace period, of three months, while the Russians promised to resume production on

October 1, 2003. From my 20 years of experience, I know that such a move needs at least a month in advance for repairs and maintenance work. The Russians did not do that, and no other raw materials were brought in," Bosnagiu adds. "Seeing that the term of October 1 was fast approaching and nothing had happened, the union questioned the Russians on their intentions, and APAPS proposed to sign yet another agreement. We refused." However, Atlas union, representing about 10 percent of the employees, signed the document. Therefore, the social pact with the minority union stipulated that production would restart in November, which did not happen.

#### Contract thrown on the slagheap

"At the end of last November, following union protests, the owner threatened to commit suicide (he acted as if he would throw himself out of the window) which surprised APAPS, which then decided to annul the privatization contract," said Bosnagiu. "We had tried to discuss the issue of backwages with the Russians, and the situation was so dire that the employees resumed their protests, only this time it was not due to a union decision," said Bosnagiu. The crisis became so bad that U Metal union president Dorel Racoltea and Cartel Alfa union leader Bogdan Hossu had to intervene. Meanwhile, APAPS renationalized the company. Following the special administration imposed by APAPS, 1,149 employees were laid off, and only the logistics department, with about 30 staff, was kept. Without producing any hard evidence, union leader Dobre says that APAPS is to blame for the plant's failure, and that he suspects that some foreign companies' interests were protected.

#### Unions claim special administrator is "doing nothing"

Dobre also claims that special administrator Mihai Baldea failed to show up for the tenders for scrap iron and missed other important meetings. An evaluation committee, approved by APAPS, has fetched some billions of lei from companies such as Remat and Rom Recycling, that bought scrap iron from Republica. Baldea admits that he has done nothing. He says that workers are turning into angry mobs on an almost daily basis and it is hard to get past them to check assets or documents. "My job is to control the activity and budget of the company," says Baldea. "I could not do my job because of the former employees' constant protests. I need the factory to quieten down. It is a tense situation, artificially inflamed by people who like to appear often in the media." Although the average legal term of a special administrator appointed by APAPS is six months, the agency can intervene and shorten the mandate, which is expected to happen at Republica. The plant cannot be legally liquidated unless the regime of special administration is lifted. Bosnagiu still hopes that the decision taken, which he believes will be politically influenced, will help Republica get back on its feet. "I only hope that EU norms regarding metallurgy production will be regulated, and Republica will be turned into a company of strategic importance." Privatization Minister Ovidiu Musetescu has admitted that most companies in the agency's portfolio are bankrupt, and Republica is one of them. According to Baldea, a decision regarding its fate is expected within the next two weeks. "Unfortunately, Republica is now being liquidated. It is hard to believe that it could become profitable by keeping its current structure. We tried all of last year to mediate meetings between the Russian investors and Republica's unions," Musetescu told Business Review. "The company is now owned by the state and is unlikely to recover regardless of how much effort we put into it. An auditor, most probably a company similar to PricewaterhouseCoopers, will be appointed over the next two weeks, to evaluate Republica's assets. That will include those that passed into Teknologika's hands, which remained at the plant, with the inventory numbers and registry changed.

#### Can Republica be revived?

The unions hope that a new investor will be found. Bosnagiu refuses to believe that Republica will be sold piece by piece and transformed, as was its neighboring company Faur, into an industrial park. His reasons? "The investment plan was made in the 1980s for a period of 20-30 years, as the metallurgical world has no short-term plans, because of the long amortization period and because the technology changes in a cycle of 20-30 years. The plan could still be partially valid." However, APAPS does not exclude the possibility of an industrial park coming to fruition. Since it was established, Faur industrial

park has clinched deals with Laminate S.A Bucharest, Relco S.A Bucharest, Astra Romana Refinery Ploiesti and Begacom Timisoara. The contracts amounted to a combined EUR 3.56 million. "Besides profit, the biggest benefit this industrial park will bring will be the creation of some 10,000 new jobs. For example, 20 percent of Faur's assets are rented to other companies and are generating more jobs than the other 80 percent, which are now owned by the old company's management," says Musetescu. "Of course, it will be months before the industrial park is built, but I am convinced that in time everybody will be happy with this plan, as the only other option is liquidation," Musetescu adds. "I think that Republica's fate will be politically influenced," Bosnagiu says. He added that Republica imported new equipment after 1990 from Germany, Belgium and the US, and now some sections even have computerized systems. "I think that there is too much fuss about Republica. I don't think that the scandal is real, and in my opinion Republica can start, with an investment of a few million USD," says Baldea. Union leader Dobre believes that 50 percent of Republica can be immediately restarted, with an investment of \$4-5 million. However, he adds that the APAPS scenario for 2004 is to follow Faur's pattern. "In 2004, in APAPS documents Republica appears with zero personnel. An industrial park will probably be built, although Musetescu promised the unions to try to save the plant and re-sell it."

### Republica's history

The state signed a privatization contract with a Russian-led consortium formed by Moody-Rom Trading S.R.L. Romania, Moody International Trading Inc. of the US, OOO Temerso from Russia and ZAO Temerso, also of Russia. The deal amounted to EUR 6.6 million in both cash and pledged investment. (The 99.54 percent stake was worth EUR 1.9 million, and pledged investments over three years stood at EUR 4.7 million.) Furthermore, about \$9 million of the factory's debt was to be paid in installments under certain conditions to be established by the state privatization authority (APAPS), the Russians and creditors. Workers claimed that the plant had produced only 1,356 tons of pipe since it was privatized, compared with the 4,000 tons a month promised by the owners. Republica's foreign management said the debt pile was larger than what was stated before they bought the plant and they needed more time to get production levels up to normal. Privatization cancelled because of breach of contract. APAPS re-possesses Republica entirely, and the Russians remain with assets on paper estimated by the unions at some \$2 million after a dodgy transfer to a third-party creditor called Teknologika, which is believed to have the same owners as the Russian consortium. Republica was established in 1938 by a well-known Romanian industrialist, Nicolae Malaxa, on the premises of some older locksmith outlets. It started by producing steel pipes for steam trains. In the 1940s, World War II engulfed Romania, and the new head of state and Hitler's ally, general Ion Antonescu, decided to nationalize Republica and switch to military production. Romania emerged from WWII with a huge war debt to the USSR, and the Russians pretended they wanted a Republica asset: a 14' laminator was given away. In 1968 the communists succeed in finishing a new laminator. From 1968-70 the cold laminating section was established. In 1977 Romania starts producing stainless steel (Inox) pipes, as the country begins to produce nuclear equipment for the Cernavoda power plant. All of the production lines built after the 1980s were made with high-performance equipment, the newest machine-tools at that time. After the 1990s, the nuclear pipes section spun off as Tubinox and was bought by foreign investors