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Lost in the Transition: Czech Businesses Pivoting from the Centrally Planned Economy to Capitalism

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The Czech Republic often has been cited as an example of successful economic transformation. The available literature has primarily focused on changes in the macroeconomic environment, although the actions of economic agents at the microeconomic level have emerged as the crucial factor explaining this success. Based on 101 oral history interviews, this article offers the firsthand experiences, frustrations, challenges, and human dimensions of doing business at that time and shows that the road from socialism to the market economy was a bumpy one. Our approach fills major information voids, and thus offers a unique opportunity for business historians to avoid slipping into the incomplete view of the world presented by written literature and archives.

Keywords: economic transition, oral history, business history, Czech Republic

Introduction

The conversion from a centrally planned economy (CPE) functioning under the rule of the Communist Party for forty years to a democratic, free-market society is highly challenging. Such huge political, social, and economic changes brought many unknowns. The economic transformation of Czechoslovakia (the Czech Republic as of January 1, 1993) that commenced after the fall of the communist regime in 1989 involved the rapid adoption of several reforms that entailed a total change in the environment in which businesses could operate, disrupting the order of the understood world. The reformers in Czechoslovakia sought to restore a functioning market economy as quickly as possible. Therefore, many changes occurred simultaneously, among them a rapid liberalization of prices, the opening of the domestic economy to world competition hand in hand with a major currency devaluation, the removal of

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subsidies, and the introduction of standard accounting and tax systems. In parallel, the legal system underwent permanent, fundamental changes.¹

At the very beginning of the transformation, the establishment of private business was legalized, and in the following years, various state-owned enterprises were privatized. The government returned some of those nationalized after 1948 to their original owners. A small privatization project got underway, mainly concerning shops and service units. This large-scale privatization was initially carried out in two waves and concerned about two thousand enterprises in the Czech Republic.² Enterprises had to prepare a privatization plan, but at the same time, anyone else could submit his or her own project.³ The Ministry of Privatization then selected the winner—that is, the method or combination of methods, including voucher privatization, direct sales, auctions, and so on, through which the enterprise would be privatized.⁴ At the same time, the government agreed with some bidders to sell selected companies directly—for example, Škoda Auto to the Volkswagen Group.⁵

From an economic point of view, there was relatively rapid macroeconomic stabilization: the cumulative decline in GDP of 15 percent was one of the lowest in the transition countries; after an initial jump, inflation stabilized relatively quickly to around 10 percent per year; and unemployment remained around 3.5 percent until 1997, which was exceptionally low. As a consequence, scholars have highlighted the successful nature of the Czech macroeconomic transformation.⁶ However, successful transformation required changes at the level of individual enterprises. Firms had to cope with the new situation and diametrically change their behavior—rather than following orders and working to protect their firm by fulfilling the plan (and no more!),⁷ they needed to eliminate inefficiencies, because only improvements in corporate efficiency would lay the groundwork for the catching-up process on the macro-level.

To the best of our knowledge, scholarly written literature examining the transformation, whether from its more-or-less supporters⁸ or its vehement critics,⁹ has largely focused on the macroeconomic aspects of the process. Although cases in which authors have dealt with the microeconomic sphere are rather limited, there are nevertheless some valuable works, such as that of Clark and Soulsby,¹⁰ who realized a longitudinal study focusing on changes in management and organization. The authors have been conducting interviews since 1991 in various enterprises and in various municipalities, developing narrative materials through case study

1. Klaus, *Země*.

2. Discussions regarding the form of privatization, e.g., Rameš, *Trh*.

3. On average, seventeen privatization projects were submitted per enterprise in the Czech part of the federation in the first wave of mass privatization. Shafik, “Making a Market.”

4. Kotrba, “The Demise.”

5. Pavlínek, *A Successful*.

6. Dillon and Wykoff, *Creating*.

7. The central planning system was set up so that managers, in an effort to secure rewards, struggled to meet the plan. On the other hand, they tried to avoid exceeding it too much, so as not to reveal the true productive capacity of the enterprise, which would lead to a more ambitious plan for the next period. See, e.g., Granick, “The Orthodox”; Mlčoch, “Chování.”

8. For instance, Brown, “Central Europe”; Svejnar and Uvalic, “The Czech Transition”; Beaulier, Boettke, and Krasnozhan, “Political Economy”; Kucera and Marsal, “Costs and Benefits.”

9. Stiglitz, “Whither Reform?”; Stiglitz, *Globalization*; Myant, “Economic Transformation.”

10. See, e.g., Clark and Soulsby, “Transforming”; Clark and Soulsby, *Organizational Change*; Clark, “The Role”; Soulsby, “Foreign.”

research with publications from the 1990s till 2022 on changes—or lack of them—since the collapse of communism. In one of their earliest studies,¹¹ they show that the privatization process and the role of institutions in it were strongly influenced by the values and behavior of key managers. Later, Clark¹² observes the role of social capital in founding new businesses, while Krátká investigated the transformation of corporate culture in domestic branches of foreign corporations newly established after 1989.¹³

Pavlínek¹⁴ focused on the privatization of Škoda Auto in the hands of the Volkswagen Group. This case is very specific, as Škoda Auto was the flagship enterprise of Czechoslovak industry. Putting privatization into the hands of a major Western partner was rather exceptional. Via voucher privatization, the government initially put most of the companies de facto into the hands of the Czechoslovak population, which did not have the necessary capital or the experience to deal with a market economy.¹⁵ Soulsby¹⁶ took a narrative approach to describe one specific case of an enterprise in the automotive industry to analyze the legacies of the past on Czech–German long-term relations. Last but not least, Pulec described the geographic perspective of concentration processes in the Czech brewing industry during the post-1990 economic transformation.¹⁷

Generally, these experiences are few and mostly very specific. We know little about companies in other sectors of the economy, which prompted us to fill this lacuna and formulate the following research question: What were the biggest problems for management in the transformation process? This implies several sub-questions: What kind of hurdles did they have to overcome? How difficult was it for them to adapt to all these changes? How did the initial conditions differ from one company to another, and how did these initial conditions affect businesses in transition? Were our interviewees' experiences similar to those presented in the literature? These questions naturally raise even more, such as how did the companies manage the transformation, and what was the basis for their survival, and so on. These are certainly crucial questions as well, but they point more toward the resolution of the situation. This already goes beyond the scope of our article, which is primarily focused on the corporate sector's problems during the first few years of the economic transition.

To answer these questions, we continue the tradition set by Clark and Soulsby¹⁸ and the literature based on narrative analysis¹⁹ and apply an oral history method. The research is based on a unique data set of 101 interviews with direct participants of that era's events. We describe the patterns that emerged across the interviews and supplement our analysis with the available literature, thus contextualizing our findings. We add to the existing literature in the following ways. First, we bring the view of economic agents at the microeconomic level—those who

11. Clark and Soulsby, "Transforming."

12. Clark, "The Role."

13. Krátká, *Letos*.

14. Pavlínek, *A Successful*.

15. Židek, *Transformace*.

16. Soulsby, "Foreign."

17. Pulec, "Integration."

18. See Clark, "The Role"; Clark and Soulsby, "Transforming"; Soulsby, "Foreign."

19. See, e.g., Hansen, "Business History"; Maclean, Harvey, and Stringfellow, "Narrative"; Mordhorst and Schwarzkopf, "Theorising Narrative"; Popp and Fellman, "Writing"; Jones and Comunale, "Oral History"; Thiessen, "The Narrative"; Soulsby, "Foreign."

witnessed the changes and had to operate in the new environment. The experiences shown by the previous literature are rather scarce and limited to one small city²⁰ or one enterprise.²¹ As far as we know, there are no other sources based on narrative analysis, and the economic literature in general shows little of the internal processes within companies and the human dimension of doing business.²² To understand these processes, it is therefore necessary to resort to a more sociological approach based on qualitative methods. Our research is based on interviews with narrators across the country and many disciplines, which enables us to identify similarities and differences among various groups of respondents.

Second, we show how the use of oral history can indeed help to improve our knowledge of business history. We use this method to investigate how company managers lived through a period of such enormous changes—a period that encompasses the economic transformation in Czechoslovakia and subsequently in the Czech Republic. These changes naturally created several problems to which these actors had to respond. We try to describe them using the testimonies of our narrators, although we are aware that such an approach has its limitations. One reason is that in the process of sense-making, a given narrator describes the events and his or her actions as stored in the memory;²³ this very process can affect the accuracy of the related events, because “with reconstruction comes distortion.”²⁴ This distortion is—due to the limitations of human memory—inevitable, especially as the interviews were conducted almost thirty years after the events we are discussing. Consequently, we are more interested in the narrators’ personal experiences of doing business in the period in question—their frustrations, challenges, and the human dimensions of change at that time. These experiences are not recorded in archives or books, but they complement and contextualize the formal written record.²⁵ Hence, our approach is a way to fill in the blanks and capture valuable information that would otherwise be forgotten.²⁶

Taking an Oral History Approach

Like any other method, oral history has its advantages and drawbacks. One of the most important advantages is that an approach based on oral history goes “down to the most mundane details”²⁷ and “permits a level of nuance that is hard to obtain from written documents.”²⁸ Consequently, it fills gaps in scholarly written documents, often questioning the hegemonic discourse.²⁹ However, that does not mean the oral testimonies are the source of a different, sole, objective truth either. Their real value does not consist in fact-finding. It rather

20. See Clark, “The Role”; Clark and Soulsby, “Transforming.”

21. See Soulsby, “Foreign.”

22. E.g., Clark, “The Role.”

23. Weick, *Sensemaking*.

24. Bernstein, Nourkova, and Loftus, “From Individual,” 157.

25. Hammond and Sikka, “Radicalizing”; Carnegie and Napier, “Accounting’s Past.”

26. Perks and Thomson, *The Oral History Reader*.

27. Maclean, Harvey, and Stringfellow, “Narrative,” 1219.

28. Jones and Comunale, “Oral History,” 31.

29. See, e.g., Maclean, Harvey, and Stringfellow, “Narrative.”

lies in how the narrator makes sense of the past³⁰ and the “comparison of interviews with the written record may reveal questions left unasked.”³¹ Oral history is thus a way to collect unknown insights at the individual level³² in order to provide “a deeper understanding of complex (and often opaque) business ecosystems.”³³

Hence, the advantage of interviews lies not only in the information as such, but in the process of storytelling itself. Just as in the writing of historical texts, narrators create history during interviews, for example, by giving greater meaning to certain parts or by interpreting the events in question. Furthermore, the result of the interview is also a collective process, as the interviewer participates in the outcome by asking specific questions and interacts with the interviewee.³⁴

The major drawback here, however, is the lapse of time. The process of recollection is largely influenced by the narrator’s memory, which has its limitations, and is “highly susceptible to distortion and error.”³⁵ As a consequence, “the history that depends upon memory is no better than the memory upon which it is based,”³⁶ as the process of reconstruction of the original information includes omissions and distortions, especially when the narrator evaluates his or her own attitudes and actions. The narrator also evaluates individual events from the perspective of today.³⁷ This evaluation is strongly influenced by his or her current personal beliefs and political rationalization.³⁸ At the same time, various written sources also influence and complement these memories, and thus the process of creation is affected by collective memory.³⁹ Moreover, the reconstruction also depends on the context in which it occurs.⁴⁰

On the other hand, the time gap can also present various advantages, especially in that narrators often no longer have political or business ambitions and are therefore less circumspect about talking about events of that time.⁴¹ Thus, although there are some limitations inherent to the use of oral history materials, we believe that the information from the interviews is essential to fully understand the social, political, and economic contexts of Czechoslovakia’s economic transition.

The aim of this paper is to identify the problems that businesses of that era had in pivoting from socialism to a market economy. To do this, we conducted a total of 101 oral history interviews between 2020 and 2022.⁴² Consistent with the available literature,⁴³ the interviews

30. Thiessen, “The Narrative.”

31. Ryant, “Oral History,” 564.

32. See, e.g., Keulen and Kroeze, “Understanding”; Jones and Comunale, “Oral History.”

33. Jones and Comunale, “Oral History,” 25.

34. Linde, “Narrative.”

35. Bernstein, Nourkova, and Loftus, “From Individual,” 158.

36. Bernstein, Nourkova, and Loftus, “From Individual,” 158.

37. Weick, *Sensemaking*; Beard, “Re-thinking.”

38. Soulsby, “Foreign.”

39. Berger, “On the Role”; Beard, “Re-thinking.”

40. Golden, “The Past Is the Past.”

41. Soulsby, “Foreign.”

42. Most of the interviews were conducted in person. However, due to the COVID-19 pandemic, some of them had to be conducted online via Skype or MS Teams.

43. See, e.g., Vaněk and Mücke, *Třetí strana*. This book follows the tradition established in *The Oral History Reader* by Perks and Thomson and reflects the fact that there are close links between Czech oral history and its authors. The methodology has also been inspired in part by Locke, Feldman, and Golden-Biddle, “Coding Practices.”

had a traditional structure. First, we gave the interviewees space to talk freely about their personal and professional lives. This section is crucial to understanding the individual narrator's personal context. Next, we asked a series of specific questions prepared in advance. The narrators' answers often contrasted with our prior knowledge. The entire research team (the authors plus six others) then discussed each interview, comparing them with both other interviews and the previous literature.

Interviewees came from many different industries. Most were managers of former socialist enterprises that had gone private and managed to cope with the transition to a market economy. Some interviews came from owners of newly established businesses, who also helped characterize the business environment. Finally, a few narrators were former politicians or lawyers, who helped design the reforms of the time. Narrators from the ranks of bankers and brokers then completed the picture of the transformation. The oldest narrator was born in 1934; the youngest in 1972. The sample of interviewees consisted overwhelmingly of college-educated men. Only 9 narrators out of 101 did not have a college degree, and only 6 were women. The bias in education reflects the fact that we interviewed very capable people in high positions. The low representation of women among narrators reflects the corporate culture of the time, because there were very few women in leadership positions in the 1990s, and the same was true during the communist period. All interviews were recorded and subsequently converted into text form. As a result, we had several thousand pages of text at our disposal capturing the previously unknown personal experiences of the interviewees during the period of economic and political transformation in Czechoslovakia and, by extension, in the Czech Republic.

We recruited narrators in the following ways. To begin with, we made use of our extensive personal contacts. We also had contact details and commitments from several narrators from a previous project on the functioning of the CPE before 1989. These were almost exclusively top managers who had run their respective enterprises under socialism and were also present during the subsequent transfer into private hands. Some of them became owners. These people had invaluable years of experience in running a business in both periods and were able to identify the advantages that their businesses had over their competitors, as well as the major difficulties they had to deal with during the transition. In some cases, we contacted surviving businesses and requested the contact details of the direct participants in the events under review. We also used our personal contacts to recruit narrators from post-1990 start-ups.

Along with entrepreneurs, we sought to interview public figures who made the rules of the game at the time—the authors of the economic and legal reforms. However, given the political tensions that characterized that era, some actors naturally refused to participate in the research. In the next step, we used snowball sampling, but in some cases, it was very difficult to reach narrators because they were no longer in contact with their former colleagues. The advantage of this method is that personal contacts facilitate trust, especially in elites still working in their fields:

Currently employed executives may lack the time for interviews, be difficult to contact directly, or be shielded from scrutiny by business organizations with little interest in publicizing how they operate. Referrals can bridge such obstacles because they convey trust, particularly when coming from senior industry figures.⁴⁴

44. Bailey, "Snowball," 76.

Moreover, if a narrator is recommended by multiple people, it means that this is most likely a person who is relevant for our purposes and can provide extremely valuable insights.⁴⁵ In sum, the snowball method was a very useful approach that enabled us to collect a valuable data set. We do not pretend—or intend—to have a representative sample that can be applied to the whole population. Our research aims to offer firsthand experiences that complement the written literature and archives. However, there was a great deal of repetition in the experiences of our narrators, and further interviews no longer provide much additional information. Therefore, we believe that we have reached the saturation point.

Table 1 summarizes basic information about the narrators cited in this article. Most of the narrators are from businesses, either privatized or new, that have since become successful—in the sense that most of the enterprises under consideration managed to survive the transition period. Due to space limitations, the rest of the narrators are not listed. All interviewees are listed anonymously under a pseudonym.

Legacies of Communism

The socialist economy—predominantly industrial and oriented toward Eastern markets⁴⁶—was based on a command system in which enterprises were not autonomous and were de facto perversely motivated to maximize inputs and minimize outputs.⁴⁷ Competition was virtually nonexistent, and the domestic economy was not integrated with the global economy. In general, state-owned enterprises had very limited motivation to improve efficiency and production quality. Not only were prices fixed, but Communist Party interference in decision-making processes made efficiency suffer even more. According to the official propaganda, the economy was “scientifically driven” and the system was rational and predictable. In reality, however, businesses had to face uncountable real problems on a daily basis.⁴⁸ First and foremost were permanent shortages at all stages of production up to final output.⁴⁹ Buyers were therefore in a weak position vis-à-vis sellers—they had to persuade sellers to sell, not uncommonly through corrupt practices.

The economy was characterized by large enterprises that were often the only (or one of the very few) producers of a given product on the market.⁵⁰ When they had economic problems, they received subsidies; bankruptcies were nonexistent; and profit was not an important economic category. The main objective was meeting the plan. All residents had the right—and the obligation—to work.⁵¹ Firms hoarded labor as well as other resources,⁵² which resulted in so-called overemployment.⁵³

45. Bailey, “Snowball.”

46. Nezval, *Světová ekonomika*.

47. Mlčoch, “Chování.”

48. Clark and Soulsby, “Transforming,” 229.

49. Kornai, *Economics of Shortage*.

50. Židek, *Centrally Planned*.

51. Coufalová and Židek, “Functioning.”

52. Malý and Herc, “Příspěvek.”

53. International Monetary Fund experts estimated that if up to 15 percent of the workforce were laid off, there would be no decline in output. See, e.g., Weigl, “Analýza.”

Table 1. Narrators and interview details

Pseudonym	Branch	Occupation during the 1990s	Career development	Date of interview
Aleš	Transport	General director	He was a director of the company until 1994. Today he is retired.	December 20, 2021
Andrej	Engineering	Middle management	He established his own business in 1992. He was already retired on the day of the interview.	November 12, 2020
Antonín	Food industry	Middle management, company owner	He had already worked for a long time in the food industry before the revolution. He worked in the company after its privatization as one of the owners until 2013, when he sold his share.	January 6, 2021
Bohumil	Electrotechnical industry	Engineer	He had already worked in the company before the revolution. After 1989, he founded his own company, where he still works today.	October 30, 2020
Dalibor	Engineering	Programmer	Since the early 1990s, he has worked in a different industry from the one he worked in before the revolution. He has held a number of jobs in banking and as a finance director. Today he is self-employed.	January 5, 2021
Daniel	Food industry	Middle management	From the first half of the 1970s, he worked in a state enterprise in the food industry until the end of the 1990s. At the time of the interview, he was already retired.	January 9, 2021
Gabriel	Construction	General director	He worked for the same company from about the mid-1970s until 2012. Today he is retired and works as a consultant for the company.	May 20, 2021
Hynek	Engineering	Middle management	He worked for the company in 1989 and for 20 years after. At the time of the interview he was employed by another company.	June 24, 2021
Jan	Engineering, electrotechnical industry	Head of controlling, financial manager	Before the revolution, he worked for the same company until 2020, when he retired.	August 17, 2020
Jana	Commerce	Commercial deputy	Prior to 1989, she served as a commercial deputy. After the revolution, she co-founded a trading company. In the period immediately before the recording of the interview, she held senior positions in the executive branch. She is still a shareholder in one company, but is not actively involved in its management.	December 9, 2020

(Continued)

Table 1. (Continued)

Pseudonym	Branch	Occupation during the 1990s	Career development	Date of interview
Josef	Automotive	Middle management, company owner	He has worked for the company since the early 1990s and worked his way up to the position of director. After about fifteen years, he left the company.	December 11, 2020
Kamil	Construction	Middle management	He established a business in 1991, which he was still running on the day of the interview recording.	November 13, 2020
Karel	Consumer industry, engineering	Head of sales, director	Since the end of the 1960s, he worked successively in two state-owned companies. In the 1990s, he moved to another company as head of the sales department, where he was briefly appointed to the role of CEO of his company. Later he bought a stake in another company where he acted as managing director. He is now long retired.	February 23, 2020
Kvido	Textile industry	Chief operating officer	He worked at the company from the mid-1970s until early 1992, when he left just before privatization. He continued to work closely with the company.	October 9, 2021
Libor	Light industry	Company owner	In the early 1990s, he began working at a company he later co-owned. At the beginning of the new millennium, he founded his own company, in which he is still active.	November 17, 2020
Lukáš	Gas engineering	Middle management	He started his business in 1989. He still serves as a board member of one of the companies he founded in the early 1990s.	November 16, 2020
Marek	Government	Minister	Before 1989, he worked for many years in a FTE. After the revolution he worked briefly in the executive branch, and since 1990, he has been in the management of a company operating in the automotive industry.	February 22, 2022
Martin	Engineering	Manager	From the second half of the 1990s until the present day, he has been a director and chairman of the board of the company.	February 20, 2020
Michal	Textile industry	Manager	Until 1989, he worked as the head of one division of a socialist enterprise. After the revolution, the plant was divided into several parts; the narrator bought the part he oversaw. On the day the interview was recorded, he	February 28, 2020

Table 1. (Continued)

Pseudonym	Branch	Occupation during the 1990s	Career development	Date of interview
Milan	Engineering	Project manager	was still in the same position as owner and director of the company. He has worked for the company since the early 1980s for almost thirty years. He was already retired at the time the interview was recorded.	March 12, 2020
Miloš	State administration	Director general	He worked in research and SPC. Since 1990, he has worked alternately in the executive branch and in state-owned enterprises. He is now a member of the supervisory board of one of them.	June 22, 2021
Mirek	Energy sector	Deputy director	His entire professional career has been in the energy and industrial sectors. From 1984 to 1994, he worked in a power plant and then for almost ten years in another major company in the sector. He is still active in the field.	August 3, 2021
Patrik	Engineering	Financial director	Before and after the revolution, he worked in the same companies until 1998. On the day of the interview, he was newly retired.	June 29, 2021
Pavel	Government	Minister	From the revolution until the end of the 1990s, he served in the executive branch. Since then he has worked in the private sphere. He later returned to the civil service. At the time of the interview, he was working in a business support institution.	July 16, 2020
Petr	Government	Minister	From the early 1990s until the day the interview was recorded, he worked primarily in academia and politics.	July 27, 2020
Radek	Research	Designer, middle management	Although he is now retired, he is still actively involved in the running of the company he founded after the Velvet Revolution in 1991.	December 29, 2021

(Continued)

Table 1. (Continued)

Pseudonym	Branch	Occupation during the 1990s	Career development	Date of interview
Richard	Transport	General director	He was one of the managers of the original state enterprise. He participated in its privatization and is still working in the company.	December 8, 2021
Robin	Advertising	Manager	He has worked for the company since the early 1990s and has worked his way up to his current position as director.	June 17, 2021
Roman	Light industry	Middle management, company owner	He worked in a company that was restituted in the early 1990s and served as managing director and co-owner. Today he has handed over the management of the company and serves as a member of the supervisory board.	January 6, 2021
Rostislav	Light industry	Middle management	Until the revolution he worked in the stone industry. In 1989, he started his own business, which he still manages.	November 2, 2020
Rudolf	Construction	Sales director	He worked for the same company from the early 1980s until 2018, when he retired.	May 20, 2021
Svatopluk	Food industry	General director	He started working for the company in 1974. In the first half of the 1990s, he participated in its privatization. He still works in its management.	July 12, 2021
Štěpán	Food industry, banking	Manager	From the first half of the 1980s, he worked in a state enterprise in the food industry. The first years after the revolution were spent in the banking sector. In the first half of the 1990s, however, he started his own business. Today he is still a very active entrepreneur.	October 26, 2020
Tomáš	Services	Company's owner	From the beginning of the 1960s, he worked in the state enterprise until its liquidation in 1992. He then started his own business in the same sector. He was newly retired on the day of the interview.	December 19, 2020

Table 1. (Continued)

Pseudonym	Branch	Occupation during the 1990s	Career development	Date of interview
Václav	Government, lawyer	Minister, legislative council	Until 2010, he held various positions in the executive branch. The day of the interview he was already retired.	June 16, 2020
Vincent	Arms industry	Division director	He worked at the company from the first half of the 1970s until the day of the interview.	January 7, 2022
Vít	Foreign trade	Manager	He was employed in FTE for almost twenty years. He is now working in a completely different industry.	June 25, 2020
Vladislav	Automotive	Member of the board of directors	He worked for the company from the 1970s until its privatization in 1993. He then moved on.	June 12, 2021
Vlastimil	Government, engineering	Chief national executive	Before and after the revolution, he held various positions related to foreign trade, academia, and the executive branch. At the end of the 1990s, he founded his own business. He was still employed on the day of the interview.	June 18, 2020
Vojtěch	Government	Head of accounting	Until the end of the 1990s, he served in a number of political positions. He then left public life altogether.	January 13, 2022
Zdeněk	Transport	Head of technology department	He worked for the company from the second half of the 1960s until 1994. Then he moved on.	June 16, 2021

All of these characteristics are diametrically opposed to those of a market economy under normal circumstances. The system of central planning and the embargo on imports of advanced Western technology led to a gradual loss of competitiveness of Czechoslovak goods.⁵⁴ Enterprises were, for the most part, unable to produce goods marketable in high-demand Western markets.⁵⁵ In 1989, only 15 percent of Czechoslovak exports were sold in developed markets;⁵⁶ according to some estimates, in the 1980s, only 3–5 percent of domestic products reached the quality of goods traded on world markets.⁵⁷ The economy permanently lagged behind the developed Western economies.⁵⁸

The fall of the Iron Curtain spurred the transition from a CPE to a system in which businesses had to learn to stand on their own two feet; one of the first reform steps was the elimination of subsidies. At the same time, competition returned, and success no longer meant meeting the plan's goals, but making a profit.⁵⁹ However, the road to a market economy was by no means easy. To be successful, enterprises had to deal with several problems inherited from communism, the common denominator of which was low efficiency, and this consequently complicated the functioning of businesses in virtually all sectors.

Dealing with Excess Production Capacity and Labor

One of the problems that the literature as well as our narrators frequently mentioned that firms had to deal with from the beginning of the transition to the market economy was overcapacity as a consequence of bad planning or the hoarding of resources.⁶⁰ For example, Aleš described the State Planning Commission's (SPC) plan to build a new plant for a transport equipment company. To his great astonishment, the SPC planned to build a plant consisting of three giant production halls that would produce 2200 vehicles per year—at the time, this was the annual production volume worldwide. He was able to stop the construction of one of the halls, but it was too late to stop construction of the others, so in the end, the company inherited two giant production halls measuring half a kilometer by half a kilometer. He described the absurdity of the whole situation in his experience with foreign bidders for the company:

When they came and found out we were building a hall for 2200 [transport vehicles]⁶¹ annually, they looked at me and I was like—what am I supposed to say, I'm not the dipshit who decided this, or what am I supposed to say, right? [*Laughs.*] Because they said—“Well, how many orders do you have now?” And I said, “Well, right now 36 [transport vehicles] for the year.”

Moreover, the overcapacity problem had also been significantly exacerbated by the ever-present fear of military conflict between East and West. As a consequence, the already large enterprises often had spare production capacity for a possible transition to a war economy, which

54. Myant, *The Rise*.

55. Půlpán, *Nástin*.

56. Federální statistický úřad, *Statistická ročenka*.

57. Půlpán, *Nástin*.

58. Coufalová, Mikula, and Židek, “Competitiveness.”

59. Židek, *Transformace*.

60. Malý and Herc, “Příspěvek.”

61. For the sake of anonymity, we do not provide the exact type of vehicles produced.

contributed to inefficiency and low competitiveness during the transition period. For example, Patrik talked about incredibly oversized production halls, 30–40 meters high for the housing of looms that were only 2 meters high, in case it suddenly became necessary to produce tanks and missiles. This put Patrik’s enterprise at a disadvantage against foreign competitors who had tiny halls—appropriate for the size of the machines—and therefore had much lower heating costs.

In addition to production capacity, the greatest consensus among narrators concerned the labor surplus. Patrik observed that overemployment was concentrated predominantly in administrative departments:

All the companies that operated in the previous regime were somehow overstaffed with overhead in terms of accounting, information, offices, and so on. So the basic job description, if I’m going to overstate it, was to increase efficiency, which means reducing the number of people.

Similarly, Dalibor commented that the finance department in his company had 60–80 percent higher costs because of surplus labor.

Thus, to deal with this problem inherited from the socialist period, managers had to take steps to drastically increase labor productivity, that is, they had to make layoffs. However, most of our narrators remember this task as highly challenging, because after forty years of job security for everyone, people were not prepared to lose their jobs. Managers had difficulty being the villains who made these staff reductions. Consequently, a common pattern across the interviews was that layoffs were—and after thirty years still are—perceived as personally very difficult times. They remember it as a “painful” (Rudolf) or even “traumatic” (Richard) experience.

It was all the more difficult for them, because they never had to do that during the socialist era (on the contrary, they used to have problems with labor force shortages):

I’d never done that before. [...] What was a shame wasn’t even about impoverishing people, but more the moral aspect... One woman said, she had arguments “I’ve been working here for 40 years, like a dog, and now you tell me you don’t want me anymore. Yeah?” I struggled with that then. (Kvido)

The narrators also observed that the crucial social role of these big state-owned enterprises in their respective regions played a major role in this “pain” and “trauma.” Moreover, as Clark and Soulsby highlighted,⁶² under socialism, the majority of middle and senior managers spent most of their working lives in the same enterprise, which reflects the fact that fluctuation of the labor force was generally very low. As a consequence, Hynek recalls this situation as an internal conflict between what is efficient and good for the operation of the company and what is socially acceptable. In this sense, Richard recalls dismissals as a very “dark” experience:

It was a dark day, because of that I didn’t sleep for a long time, when I signed 75 terminations just like that, in a single day. And it was cruel because it was guys, women, girls that I worked

62. Clark and Soulsby, “Transforming.”

with in the same workplace whom I knew, and they all came to me saying they understood. They were just asking why they were the ones, right? So that's where it really, it floored me at that time.

The whole process was hampered by the fact that “there was, like, a lot of social feeling among the management as well” (Hynek). The available literature⁶³ shows that this is still a strong legacy of the communist past across the post-socialist countries, as unemployment continues to be a very sensitive topic in this region, and the size of this indicator plays a key role in the electoral support for incumbents.⁶⁴

Although narrators across all industries remember layoffs as a necessary step to increase the efficiency and survivability of the company, many scholars have pointed out that unemployment remained exceptionally low after 1989, partly reflecting management's reluctance to dismiss people even though employment in industry significantly declined.⁶⁵ Our results are in line with literature that presents “the manager” in the period of transition in the Czech Republic as a very socially sensitive individual; this perception was also a consequence of socialism.⁶⁶ Managers of privatized state enterprises generally lacked the toughness that is a necessary attribute of standard (Western) managers, and we can assume that the failure of some firms in transition was often due to their unwillingness to reduce labor costs sufficiently. Even today, after thirty years, it is clear from the accounts of our narrators that it was a very unpleasant and traumatic experience.

Bad Habits from the Communist Era and the Lack of Knowledge About the Functioning of the Market Economy

Apart from excess production capacity and labor, businesses had to cope with other legacies of communism that affected their efficiency as well. Vast empirical literature exists showing that the forty-plus years of communist rule and a CPE profoundly affected the way people think and behave—their morals, values, and beliefs⁶⁷—the informal institutions.⁶⁸ Changing informal institutions generally takes a very long time. According to Clark and Soulsby, “It has proven impossible to erase forty years of state socialism, ideology, institutions and behavioral patterns, and simply inscribe the new values, structures and appropriate conduct of ‘market capitalism.’”⁶⁹ Similarly, twenty years after the fall of the socialist regime, Roland⁷⁰ observed that despite rapid change in formal institutions, informal institutions had changed very little.

References to inertia from the communist era emerged as a common pattern across the interviews. As an example, Patrik reminisces that “terrible inertia, all these things hurt terribly

63. See, e.g., Roberts, “Hyperaccountability”; Coffey, “Pain Tolerance.”

64. Fidrmuc, “Political Support.”

65. Gitter and Scheuer, “Low Unemployment.”

66. Clark and Soulsby, *Organizational Change*.

67. For more about informal institutions during the socialist era, see Coufalová, “Formal.”

68. See, e.g., Kluegel, Mason, and Wegener, “The Legitimation”; Alesina and Fuchs-Schündeln, “Good-bye Lenin”; Landier, Thesmar, and Thoenig, “Investigating”; Sirovátka, Guzi, and Saxonberg, “Support”; Fuchs-Schündeln and Schündeln, “The Long-Term.”

69. Clark and Soulsby, “Transforming,” 216.

70. Roland, “The Long-Run.”

and take a terribly long time.” Hynek agrees with this statement and even believes that communism has a legacy in the behavior of the workforce today:

I think that it stayed in those people, that mindset there ... I think it's still alive in some companies to this day, yeah? [*laughs*] [...] Among the people, that kind of socialist thinking. [...] It went very slow, the former system was really still very deeply rooted there.

Informal institutions from the communist era thus inevitably affected the functioning of enterprises. The available literature⁷¹ shows that there were strong communist legacies in the thinking and practices of management even after the fall of the communist regime.⁷² Our narrators also recalled this inertia in the thinking and acting of managers, who were not used to behaving according to market principles. Miloš, who worked as a state official, noted that “it all fell on the management, who always thought that next month we would reintroduce socialism,” and it took a very long time for these managers to learn the rules of the game:

What was difficult was to switch that mindset, from where the management cared that the company and especially the employees were having a good time [*laughs*], and to switch it to the company and especially the shareholders were having a good time. (Patrik)

Nevertheless, our narrators also observed strong vestiges of the previous regime in the poor work ethic and low motivation exhibited by some workers along with low motivation in some jobs. It was not just the size of the labor force, but it was also its quality and efficiency that engendered the problem. Workers' morale during socialism can be summed up by the following—commonly heard—slogan: “We pretend to work, and the state pretends to pay us.”⁷³ The atmosphere in the work teams indeed corresponded to this, and Hynek laughingly recalls that when some of the workers worked hard, they were criticized by the others: “Hey kid, don't screw up the plan here.”⁷⁴ Management, even if it sought to increase the work effort of employees, had no leverage over them because of the permanent shortage of manpower and also because of significant leveling in remuneration.⁷⁵

The poor work ethic remained deeply rooted in the minds of people even after the fall of the Iron Curtain. Hynek assesses this situation from today's perspective—after thirty years of experience with the market economy:

Now I have a chance to compare it, because I'm in a foreign-owned company, so obviously it's a whole different thing, yeah? The huge pressure to perform and whatnot, it's not like that was there, right? The people there weren't really motivated, right? [...] I don't mean that in a bad way, but basically, “day-in, day-out, that's my work hours, okay?”

71. See, e.g., Clark and Soulsby, “Transforming.”

72. According to Clark, the reproduction of institutionalized practices from socialism was typical especially for privatized enterprises, but not so for newly established businesses. Clark, “The Role.”

73. Mlčoch, “Chování.”

74. This quote refers to the perversity of the CPE, in which state-owned enterprises did not seek to maximize profits. As was mentioned earlier, a big overshoot meant a more ambitious plan for the next period, so they tried to avoid effort. See, e.g., Coufalová, Mikula, and Žídek, “Competitiveness.”

75. Coufalová and Žídek, “Functioning.”

But the problems with the poor work ethic in the previous regime were not only matter of employees, but also managers, who themselves admitted it. For instance, Josef (middle management in the automotive industry) told us that they worked an hour per day and their goal was “to come up with a scam to go to the pub for a beer.” The management had to start working much harder after 1989. It was especially true for those who became owners of a company and thus became extremely interested in making a profit.

However, in managerial cases, their work effort often quickly shifted to the opposite extreme. Daniel remembers that he worked for twelve hours per day, and moreover drew up contracts in the evening; Štěpán quantifies his effort at twelve to sixteen hours; Bohumil noted that “I actually gave it all my time”; Kamil said that he worked “from sunup to sundown, including Saturdays and Sundays”; last but not least, Lukáš described his working day in the following way: “I drove to and from construction sites, for maybe four hundred kilometers a day, every day. Bread roll in one hand, steering wheel in the other.”

Some narrators said that it did not bother them at that time, but thirty years later they are able to see that it had its consequences. Štěpán lost his marriage; for Libor, it was “devastating”; Lukáš remembers that he ended up at a very famous doctor’s for three weeks in the hospital suffering from “total exhaustion”; Daniel added that “back then, the story went that every top manager of a company would either have a heart attack or crash his car, and the latter happened to me.”

Another aspect of inertia was noted also in the behavior vis-à-vis customers. Under socialism, the central planners largely determined supplier–customer relations and quantities to be produced.⁷⁶ During the transition to a market economy, the enterprises had to strive to obtain customers themselves, which required changing the approach to customer service. Michal, who worked in a textile industry company, argued that this change was somewhat difficult. He described an experience with one of his employees, whom he repeatedly tried to teach to behave in accordance with market principles and, above all, to put the customer first. After repeatedly admonishing the employee to behave properly with the firm’s clients, Michal had to dismiss him, which was again a painful experience. “Look, when I watched from the window here, as he walked to his car with those plastic bags, and I saw that his wife was unemployed, I felt bad.”

Similarly, Mirek, the deputy director of an energy company, discovered that his salespeople never personally went to their biggest customer; instead, the customer always had to come to their office. It was one of the reasons he had to replace his sales manager—repeatedly. Even after ten years, Mirek indirectly discovered that the treatment of customers was poor, and that he, as CEO, would go around and say how much he valued the customers, but then the employees—who were supposed to implement this—behaved differently: “Those were such clunky times, it was great, we were all learning. And that was probably the hardest part, getting that to trickle down through the company.”

Learning was a *sine qua non* to succeed in the nascent market economy. The lack of knowledge extended to other areas; indeed, it was omnipresent. Bureaucratic management of the socialist economy and the fact that business had been presented almost as a criminal

76. Židek, *Centrally Planned*.

activity both led to a lack of managerial skills and market experience in transition economies. As the main goal was to fulfill the plan, the socialist managers were risk-averse and had limited information about the functioning of the market.⁷⁷ In this vein, Vincent argued that after forty years of socialism, most people had absolutely no experience with how a market economy functions: “It was a question at first that we didn’t know what. We were on our own.... It was also due to the fact that a lot of factories had the same problems that we had, that they didn’t know what they were.”

Some interviewees note that a big reason why this era was so challenging was just because they had no one to help them, and they had to learn everything on their own without any preparation or guidance:

Just as we were all guided, right, by how socialism operated, all at once we all ran headlong into a place where the market would take care of everything. But that wasn’t true, because of course there were a lot of so-called wise guys and different connections from the past, and unfortunately, I think that was what made us most vulnerable during our start in this new world. [...] Thank goodness all that we have to say [is] that those [are] some of the negatives that we had to experience, it was a pretty expensive education sometimes, and the state didn’t help much in that, but maybe it was for the best, you know. Sink or swim, do what you can do. [...] We weren’t prepared for it or we were brought up in socialism, but now we’ve arrived, and I think we managed somehow. (Andrej)

The External Environment

In addition to internal, firm-level problems, companies had to deal with outside influences far beyond their control. Most businesses faced a huge problem in the early 1990s related to the transformation of supplier–customer relations. During socialism, companies had no need to actively seek out customers or suppliers, because the economy at that time had a monopolistic structure and was centrally planned, so there was usually no choice and nothing to choose from.⁷⁸ Moreover, shortages in the economy were pervasive, so the problem was getting inputs, not selling outputs.⁷⁹ However, this changed radically at the beginning of the transformation. The market, and therefore the forces of supply and demand, began to drive everything, and competition increased. At the same time, the economy was going through a so-called transformation recession caused by the total upheaval of the economic management system and the disintegration of the COMECON markets, which had a generally negative effect on demand.⁸⁰ The recession lasted from 1991 to 1993. In the first year, domestic demand declined by 21.4 percent. Both investment and consumer demand fell, which was mainly related to restrictive macroeconomic policies that created room for the necessary adaptations

77. Estrin, Meyer and Bytchova, “Entrepreneurship.”

78. Mlčoch, “Chování.”

79. E.g., Kornai, *Economics of Shortage*.

80. Vintrová argues that the disintegration of the COMECON markets accounted for approximately one-third of the total drop in GDP. Vintrová, “Možnosti.”

to the changed internal and external conditions. The biggest decline on the supply side of the economy was mainly caused by slumps in the industrial and construction sectors; services, on the other hand, grew.⁸¹

There were also changes in foreign trade relations. The initial conditions for Czechoslovak exporters were certainly not easy, as they were only able to compete by exploiting the low price of their goods or by exporting goods with lower added value. It became increasingly necessary for some companies to import advanced foreign technologies to be able to compete in the demanding Western markets.⁸² Moreover, during socialism, exporters could not trade with foreign partners on their own, as foreign trade was conducted through so-called foreign trade enterprises (FTEs).⁸³ This meant that managers lacked the necessary experience to deal with their foreign counterparts. Sales departments in socialist state-owned enterprises were mere administrative units,⁸⁴ which had major consequences in the transition period. There was a general consensus among the narrators that domestic products decidedly lagged behind Western products in design and advertising. According to Kvido, although the quality of their product was comparable to what was sold abroad, “design-wise it was worse ... we didn’t know how to sell it, that maybe in red it would be more marketable than in green, right?”

In 1990, the first reforms leading to the liberalization of foreign trade were implemented. One of them was a huge devaluation of the crown, which gave exports an advantage but made imports of raw materials and intermediate goods more expensive.

At the same time, business was freed up and the monopoly of the FTEs was abolished. In the following year, the state introduced internal convertibility of the Czech crown and reduced tariffs to an average of 5 percent; however, an import surcharge of 20 percent was introduced at the same time, prompted by concerns about the stability of the balance of payments. Nevertheless, these worries proved to be exaggerated, and the surcharge was quickly reduced. Czechoslovakia took another important step at the end of the same year when the country signed its Association Agreement with the European Community countries.⁸⁵

All these changes were accompanied by the adoption of an unmanageably large number of laws,⁸⁶ which made the environment in which individual businesses operated opaque and created room for occasionally dubious business practices.

The Decline in Demand for Products

Our narrators remember the interruption of supplier–customer relations as a serious obstacle in doing business. Many enterprises in the production chain went bankrupt or stopped producing due to the drop in the demand for their products. For example, Patrik noted that his company lost two-thirds of its customers; Vincent explained that “a company that used to buy 99 percent of our products went bankrupt overnight.” This left many executives in a difficult position, suddenly scrambling to find new buyers or suppliers. Our narrators

81. CZSO, “Česká republika.”

82. Coufalová, Mikula, and Žídek, “Competitiveness.”

83. Nykryn, *Zahraniční obchod*.

84. Coufalová, Mikula, and Žídek, “Competitiveness.”

85. Žídek, *From Central Planning*.

86. Klaus, *Země*.

remember that it became exceedingly difficult to sell their goods in both the domestic and global markets. For example, Vincent, who worked in an arms industry company, states that his company had to build business relationships from scratch; Roman, when asked about what was the most challenging period of the 1990s, also says that it was the search for markets; and Gabriel uses the expression “huge handicap” when commenting on the collapse of the demand–supply chain. According to Libor, this period lasted four years:

Well, there was a period of about four years that was really bad before we actually started to get our own customers, customers that we had to hunt for ourselves ... just before that, it got to the point where it was getting interesting. Otherwise, it was just really, really bad. It was just day-to-day survival at times.

Demand-side problems also came from abroad. The first major issue was the drop in demand due to the collapse of the Eastern markets and deep economic and political problems in other transforming economies.⁸⁷ This caused some companies to decline. Patrik uses the term “crisis” when referring to this situation, when there were “mountains of machines packed up in the yard for shipment, nobody wanted them, nobody was willing to pay for them. And the company that was exporting them went out of business.” Aleš says that his company had a contract with the Russians for two hundred locomotives, but they only actually paid for sixteen of them. Zdeněk, who worked in the same company, remembers that the drop in foreign demand for some products at the turn of 1990–1991 was around 90 percent. He refers to that time as “terrible” or “sobering,” because in 1989, when the Iron Curtain fell, there were extremely high expectations among people, still remembered by the vast majority of our narrators regardless of their industry, as “euphoria.” Over time, however, the first problems associated with the total change of the economic system and trade links began to manifest themselves and disappointment set in:

Well, that’s the time when there was a huge sobering up, and the hangover followed. The hangover was very tough, because the people were still there in the workshops, the machines were there, the desire to work was there. But people were going to work and waiting for work to come in, playing cards and drinking rum, to cut a long story short. And then it started to gradually fall apart, people leaving and so on. Yeah, sobering up was terrible.

On the other hand, enterprises that retained a loyal customer base had a major advantage, as Jan who worked in engineering and electrotechnical industry reminisces:

Certainly, it was not as easy as during the totalitarian times, where the business cases were more or less dreamed up, but the difficulty was not huge, the market in the Czech Republic remained, and no one else had been buying all those switchboards, devices, and all those products, because there was that tradition, and it was not quite as easy to switch to ... another supplier. It was the same in Slovakia, and we also had an agreement that the United Arab Emirates would continue. Our key product at that time, the [anonymized type of product], was relatively viable, modern, and so on and so forth. There were certainly some slight, I don’t

87. Vintrová, “Možnosti.”

want to say problems, more like new challenges to reorient [the firm] to market conditions, but it was not an earthquake that would destroy the market. No way.

However, companies that retained customers were the exception, rather than the rule. Those that were privatized by foreign partners also had an advantage. One of these was the well-documented case of Škoda Auto. The privatization of Škoda was crucial for the Czech car industry and the entire economy. The agreement was signed in the first quarter of 1991; even before that, Škoda's management had the opportunity to get acquainted with Volkswagen's suppliers in Germany. At the same time, the latter also sought to retain Škoda's domestic suppliers.⁸⁸ Škoda thus avoided the problems associated with the disintegration of supply and demand chains that other companies—the vast majority of the recently privatized state-owned enterprises—had to face.

The breakup of Czechoslovakia at the beginning of 1993 also created problems for some businesses. Although most narrators (e.g., Kamil, Lukáš, and Rostislav) said that the split had no effect on their businesses, Svatopluk, whose company was heavily dependent on trade with the Slovak side, found it very difficult, because the physical border itself created a barrier, as did the Slovak import surcharge. His company had problems delivering to Slovak customers on time, as their trucks could be delayed at the border for half a day. However, Roman notes that a location close to the border with Austria and West Germany was advantageous, because the companies were able to find customers there.

On the other hand, some companies had problems with suppliers, for example, encountering complications in obtaining raw materials and semi-manufactured goods (e.g., Roman). Pavel, who was a government minister, recalls that the disruption of trade links also manifested itself in shortages of some goods, such as sugar, in the market. “The problems started with the oil supply from the former Soviet Union. This peaked in the summer, around the time of the elections in June 1990.” According to Roman, proximity to the Western border also increased the chances of obtaining scarce inputs.

Lost Beyond the Borders

However, the problem with international trade was not only that foreign markets had disappeared. This problem was exacerbated by the fact that many companies stopped using the services of the FTEs. During the socialist era, the state had a monopoly over foreign trade, and consequently nobody else could carry out relations with foreign entities.⁸⁹ The government had authorized fifty-two companies to perform this policy on its behalf;⁹⁰ these companies purchased products from domestic manufacturers and sold them abroad. The manufacturer of the product was not directly involved in this sale at all, and the same was true for the purchases of imports. As a result, FTEs were unique entities (with some exceptions) in that they had contacts with customers and suppliers abroad⁹¹ and a general knowledge of how markets

88. Pavlínek, *A Successful*.

89. Nykryn, *Zahraniční obchod*.

90. Dillon and Wykoff, *Creating*.

91. Nykryn, *Zahraniční obchod*.

worked. Domestic producers lacked not only the necessary contacts abroad, but also experience in marketing and concluding foreign contracts.

Our narrators remember that after the liberalization of foreign trade in the early 1990s, the belief was widespread that there was hardly any economic justification for the existence of these intermediate links in the supply chain, so many companies considered them unnecessary or expensive. Termination of the relationship with FTE companies resulted in situations in which an inexperienced company's management had to make foreign trade decisions on its own, which Hynek remembers as a "difficult," "tough" time, because they were "learning on the fly."

From today's perspective, the narrators generally see scrapping the FTEs as a mistake that deprived the enterprises of established trade ties abroad:

We destroyed the FTE that was selling the products, and that had the connections and that knew how to push them into those markets. [...] We were fools to get rid of or weaken those traditional marketing links so much that those companies went bankrupt. (Vincent)

Thus, without the FTEs, businesses had to negotiate international contracts and anticipate the behavior of foreign partners without any previous knowledge. As a result, executives' inexperience sometimes resulted in serious problems:

We got a big order from Libya for about a thousand vehicles, 900 maybe. They were produced, delivered, and to this day remain in storage in Libya at the port. [...] They didn't pay, did they? It was just inexperience again. Weren't the contracts backed by letters of credit or anything, just to guarantee the purchase or to guarantee the payment, anything? (Vladislav)

Patrik and Vít have similar recollections of such situations, and according to Marek, the only exceptions were companies whose management made the wise decision to employ former staff from the FTEs:

And everybody thought that foreign trade was the same as domestic trade, and they didn't look at the conditions abroad, they didn't know them, and it was only a few people who, like, pulled those workers from foreign trade to do it, so they could reliably do what they had to do.

The Emergence of Competition

Moreover, when the monopolistic structure of the socialist economy collapsed, enterprises had to start dealing with newly emerging market competition. As Radek puts it, the fight for the customer began in earnest. "There were a couple of companies here, so we started a business. We had to elbow our way in a little bit because we were fighting for the client position, but based on our knowledge of the repair business, for example, we had a good reputation."

Tomáš recalls how fierce competition was in his company's industry, noting, "That was something new, an awful lot of people started doing business in our industry. We were quite unhappy about it. [...] There really were a lot of them, every now and then somebody appeared." However, the accounts of our narrators are much more colorful, and evidence of the impact of competition varied considerably from industry to industry and from company to

company, ranging from those who wanted to liquidate the competition (e.g., Kvido, in the textile industry, argued that competitors often wanted to buy the company he worked for in order to close it down), to friendly relationships with rival firms (e.g., Lukáš, gas engineering; Rostislav, light industry; Robin, advertising), to a clear carve-up of the market among competing businesses (e.g., Kamil, construction; Antonín, food industry).

In addition to competition from the domestic market, competition from abroad after the liberalization of foreign trade was also a major shock. Several narrators identified the “huge pressure” (Richard) from more experienced or inexpensive foreign competitors as a serious problem. They especially note that the influx of production from countries with cheap labor was especially frustrating. According to Karel, his company was “completely liquidated” due to the influx of less-expensive goods. He notes that the markets were flooded with these cheap products, and Vincent remembers it in the same way: “I’m thinking mainly of China, India, Turkey, which started to produce these textile products for a song.” At the same time, despite the devalued currency and the initial import surcharge, Aleš recalled that the biggest problem his company had to face was imports from Western markets.

However, these problems again varied according to the industry and depended on how much of the company’s production was exported or destined for the domestic market. Because even in the textile industry, which was hit especially hard by foreign competition, there were exceptions, such as damask producers. These companies’ production was mainly for foreign markets already, and they benefited from the devalued currency.⁹²

The “Wild ‘90s”

The 1990s were also a time of constant, rapid change in the legal environment that individual actors had to navigate and respond to. The legal environment was very opaque. Most of our narrators remember it in terms of “problematic” (Vlastimil) or “messy” (Patrik), which is in line with a number of researchers who have criticized the state and the development of the legal environment.⁹³ Patrik even laughingly comments that “it was just a huge clusterfuck,” and for Václav, “there was a problem everywhere you looked, because of course it was a complete reorientation, a total overhaul of the legal system.”

Private-sector actors had to constantly adapt to these changes and learn new rules, which the narrators remember as “exhausting.” According to Rudolf, “It was horrible, because there were literally hundreds of different standards, maybe thousands, that a company had to somehow digest, or at least know about,” and it took very long time for the legal environment to stabilize: “Let’s say after the first fifteen years of the new millennium, then it was a satisfactory situation.”

For Richard, the change in the legal environment was a really powerful experience:

I can’t imagine it today. Every month or so, I used to get, apart from the *Hospodářské noviny*⁹⁴ (which was more or less up and running), the Collections of Laws delivered to my desk.

92. Matešová stated that in 1990, with almost the same volume of production of damask as in the previous period, the share of exports increased from 65 percent to almost 90 percent. See Matešová, “Country.”

93. Among others, see Mlčoch, *Úvahy*; Dillon and Wykoff, *Creating*.

94. *Hospodářské noviny* was (and still is) the largest daily business newspaper in the Czech Republic, comparable to the *Wall Street Journal* in the United States or the *Financial Times* in the United Kingdom.

We were studying the new laws, we were studying the accounting laws, we were studying all kinds of regulations that ... we were learning like crazy. And we started working with law firms. We were forced to follow the legislation somehow, the changes in legislation and these developments.

Marek also related the complexity of the transformation of the whole system and how incredibly difficult it was to navigate the new environment:

It was so dynamic, very unstable, things were always changing, there were always new regulations and new standards coming out, there were always new regulations coming out on customs and tax matters, yeah, it was quite unstable, and it took away a lot of people's appetite for it or they got lost in the system. [...] That was unpleasant. Whether it was customs, taxes, excise taxes, the VAT, the introduction of these. Things that fundamentally changed business from one day to the next, you had to rework everything under the sun.

However, not all narrators complain about the legal environment. For example, Gabriel and Karel do not remember anything in the legal environment that would have hindered or complicated their business in any way. Similarly, Martin perceives the legislative environment to be the least difficult aspect of all. "There were problems wherever you looked, but from the point of view of legislation, I would say those were the smallest ones."

Moreover, Petr argues that compared with other CPEs, Czechoslovakia had the advantage of the tradition of the Austro-Hungarian Empire, while other countries had nothing to build on. This corresponds with findings by Roland,⁹⁵ who pointed out that the evolution of the institutional environment in the former communist countries was conditioned on their historical experience before communism, such as being part of the Austro-Hungarian Empire.

Complex and permanent changes in the legal system inevitably resulted in problems with law enforcement and, for some, a search for ways to take advantage of this situation. The state did not interfere much in the enterprises' affairs—unlike governments in the countries of the former Soviet Union⁹⁶—although in both regions, the enforcement of rules was limited. Narrators spoke of this period in terms of it being the "real jungle" or "wild" years (e.g., Milan). Jana recalled the period in a similar way, reinforcing the idea that it was a jungle:

Legislation was a hassle, because of the way it was set up at the beginning, and because things were always changing, and because nothing was respected, the rules just didn't apply. [...] I think that what tied us down the most was really the environment, which was inconsistent, unstable from the regulatory side, and in fact the legal enforcement was poor, so you didn't really have much to rely on, except yourself, and moreover that you wouldn't accidentally fall into the hands of someone who would just take advantage of you, abuse you.

The consequence was that it was impossible to rely on relationships with business partners—managers had to be more vigilant about how contracts looked and whether a client or

95. Roland, "The Long-Run."

96. Estrin, Meyer, and Bytchova, "Entrepreneurship."

supplier was trying to take advantage of them. The change in customer relations after 1989 was also a topic that Rudolf remembers. According to him, during socialism, relations were

Maybe friendlier, there wasn't that element of having a partner, how it sometimes is with apologizing for the rip off, yeah? [...] We had never had to close a deal, and now negotiations were going on, contracts, it was of a different nature. Before, nobody working with us had to, like, pay attention to what was in the contract or not, yeah? When we were delivering to Klement Gottwald's New Steelworks, there was nobody who wanted to trick us or stick anything in the contract that would have done that.

Moreover, some companies refused to pay.⁹⁷ According to Gabriel, the problems were not massive, but nevertheless, “we lost a million here and there.”

Some of our narrators show that their companies were not only victims of the situation but also culprits (perhaps as a result of the hard-hitting transformation or their own bitter experiences). According to Hynek, in the 1990s, his top management forced its employees not to pay suppliers, and Milan remembers that some companies tried to go to extremes, take predatory actions, and exploit the situation:

But in the '90s, there was just such a wild supplier–customer relationship. Back then, it was very easy to borrow money from the bank⁹⁸ and these people swelled up, they set up companies, then they bought machines from us on invoice, they exported the machines somewhere, and the invoices never got paid, so we were getting into this secondary insolvency, that we had tons of all kinds of receivables all over the world, which in many cases were completely uncollectible, right? Which was terrible for us, of course, because we needed to buy materials to keep producing, right? And the companies didn't want to give us the material, so there was a situation where they were just extending the due dates, and then it was so bad that somebody would say to us—yeah, I'll buy the machine from you, but I'll pay you back in six months. Yeah? And we, just to sell it, just to have any money at all, so we were able to, like, shit like that. And the guy would use the machine to print for six months, until he had orders, he paid for it, and then he'd send it back to us because it was “bad” [laughs].

Similarly, Vlastimil points out that the speed of change eventually created room for rather questionable business practices. “That was the worst problem, the unenforceability of the law, the endless corruption, the tunneling.”⁹⁹ These were often additional remnants of socialism. Corruption and bribery were deeply rooted in society and were common business practices. The literature bears this out; Fassmann has quoted surveys among Czechoslovak inhabitants. The share of people who had admitted to giving a bribe in the previous twelve months were as follows: in 1979, 34 percent; 1981, 32 percent; and 1989, 52 percent.¹⁰⁰ Petty bribes were also common among businesses, especially in an attempt to secure scarce raw materials or

97. Sojka (“Deset let”) and Holman (*Transformace*) pointed out the dramatic growth of mutual indebtedness already existing in 1991 and 1992.

98. On this point, narrators' opinions diverge. According to some, it was easy to get a loan, but according to others, it was almost impossible.

99. “Tunnelling” is a Czech term commonly used for the withdrawal of assets from a company.

100. Fassmann, *Stínová ekonomika*.

semi-finished goods. These practices remained even after 1989. Mirek argued that small bribes or “gifts”—like a bottle of slivovitz—still determined how quickly a client’s application would be processed. Officials expected these “gifts,” and if the applicant failed to bring the bottle, his or her application was relegated to the bottom of the pile for processing.

On the other hand, some of the narrators saw positive aspects of this “wild” era, because it provided great opportunities. For example, Vojtěch states that despite the “wildness” of the legislative environment, the level of bureaucracy was generally not too high, which greatly facilitated business, because everything was much simpler and the courts and other agencies did not complicate the situation. So, law and law enforcement were not perfect in terms of today’s legislation, but “if every other privatization project ended up in court (...) it would have never come together.”

Martin summarizes all the problems he saw in the early 1990s:

The political changes, the changes in relationships, the unrest among the workers, the collapse of markets and so on, it all made the 1990s extremely difficult. And our lack of skills, as it were, and the lack of preparedness for new times and new circumstances. That made it terribly difficult, but from the point of view of entrepreneurial possibilities, freedom, and opportunities, those years had far greater potential than those of today. Because regulation was basically ... minimal compared to what it is today.

Conclusion

After the collapse of communism, the Czechoslovak (after 1993 Czech) Republic had to undergo a path of reforms to move from central planning to a market economy. The relevant literature has comprehensively documented this transition, evaluating it rather positively both for its general effects as well as its macroeconomic stabilization. Nevertheless, the microeconomic point of view is rather scarce. Contrary to the results presented by the conventional economic literature, this paper based on oral history method shows that the macroeconomic perspective is not the whole story. In practice, firms had great difficulty adapting to this new situation. Our research fills this empty space and identifies the key problems of Czech businesses during the transition period, and it helps researchers gain insight into what needs to be considered when trying to understand such a huge change in an institutional system. By adopting this approach, we can better explain the difficulty of the road from socialism to a market economy. The recurring narrative themes point to several areas of concern.

First, the legacy of central planning created a particularly large burden. Managers had to contemplate a complete paradigm shift when doing business—from trying to meet the plan (regardless of efficiency) to trying to make a profit (emphasizing efficiency in every action). The managers were not—and could not have been—prepared for this change, because most of them had virtually no practical knowledge of how a market economy worked. The command system forced them in practice to build up excess stocks of everything—including their labor forces—to ensure that the plan was met, which was perfectly rational according to the

incentives of the system. However, such excess capacity became a major liability at the moment that profitability became the key factor of their work. The new system forced them to make cuts and layoffs. Decisions about layoffs were a recurrent topic across the narrators' accounts and were perceived as extremely difficult in human terms—in part because the declared advantage of the socialist establishment was the absence of unemployment. The extensive literature we have cited consistently points to embedded cultural attitudes toward work and social security across post-socialist countries, whose inhabitants were unprepared for unemployment and expected high levels of social (i.e., governmental) protection. Unemployment also had arisen as one of the most important determinants of voting behavior in these countries. Our article has contributed to this literature by using narratives, throwing into relief the point of view of the managers of that time. We observed a common pattern across the interviews: a certain trauma of having to face a choice between the search for business efficiency and the social and human aspects of layoffs, which the narrators—regardless of the industry in which they worked—still feel thirty years after.

Narrators also perceived legacies of communism in informal institutions. Previous literature has already noted that these morals, values, and beliefs only change very slowly.¹⁰¹ With regards to business specifically, scholars have pointed out how the legacy of communism affects the behavior of managers.¹⁰² This was also a common pattern across our interviews, which nevertheless also revealed that it was very difficult to change the behavior and work ethic of employees. Another problematic aspect was employees' attitudes toward customers, because they were used to customers being in a pleading position. However, the new system required placing customers first; this concept proved to be extremely complicated for management to instill in their workers. The distance in time from the events under examination helps us to uncover sensitive topics like the details of nepotism and petty corruption on the part of the employees that would otherwise have remained in anecdotal, relative obscurity.

It was thus absolutely necessary for managers to completely change employees' attitudes about business and their role in it—but also managers themselves had to change their work ethic. Under the previous system, it was similar to that of employees, because they also were not motivated to work hard. Our interviews reveal that in their case, the pendulum often went in the opposite direction, and managers were unable to keep a reasonable work–life balance, which sometimes even led to self-destruction.

The second challenge for businesses arose from the external environment. Management was used to working in a state of total stability, where conditions had been virtually unchanged for decades, and business relations were planned and perfectly stable. This world quickly collapsed after the fall of the communist regime, and managers had to adapt to the nature of a market economy—to permanent change. The transformation itself also meant a general decline in demand caused by the transformation recession. The supply and demand chains were interrupted, and moreover, competition began to emerge in the domestic market. This problem was even more profound for companies that previously exported their goods, because the traditional Eastern markets collapsed. In addition, managers also spoke about the decision of a number of companies not to use the services of FTEs anymore—despite the fact

101. See, e.g., Roland, “The Long-Run.”

102. For instance, Clark and Soulsby, *Organizational Change*.

that only FTE employees had knowledge of how foreign markets worked. These companies, in an attempt to save costs or because of their hubris or naïveté, believed that they would be able to deal with foreign markets on their own. In retrospect, our narrators saw this as a critical mistake.

Third, it was not only the business relationships but the rules of the economy—the legal system—that were constantly and fundamentally changing. These legal changes, combined with their weak enforcement, contributed to counterproductive patterns of behavior (including nonpayment as a general phenomenon), which Czechs often refer to as “the wild ’90s.” Based on the most recurring topics, we have identified various forms of this “wild” behavior—some firms simply failed to keep up with the changes in the rules, others ignored them, while a few outright abused them. It is hard to guess what the predominant cause of this “jungle” ecosystem was, but regardless of the cause, most narrators considered it to be a serious drawback. At the same time, the passing of time allowed some of them to admit that their companies had also behaved in a predatory way. On the other hand, others associated the period with a generally lower level of regulation, which they praised.

Fourth, the position of different sectors within the economy was very uneven. As the available literature has pointed out, the initial conditions for various sectors varied greatly. Sectors like heavy industry or metallurgy were massively favored at the expense of others; this was reflected, for example, in the level of investment.¹⁰³ Moreover, some companies had newer machines or were able to export to Western markets, so their products were relatively competitive, whereas others had obsolete technology and had exported to the Eastern markets, which quickly disappeared.¹⁰⁴ In the words of the narrators, the initial differences were intensified by the transformation itself. This had a decisive impact, because the demand for some products stayed more or less constant or the company, such as Škoda Auto, was lucky, because a foreign investor purchased it with plans for further development.

The changes described affected not only Czech companies. The change from a command system to a market-led economy took place in other Eastern bloc countries, but the individual centrally planned systems differed significantly in both macroeconomic stability and the position of enterprises. For example, in Poland and Hungary, the private sector played a much larger role, and state-owned enterprises were also able to make more autonomous decisions. The differences were further exacerbated because the approaches to the transformation process were not identical,¹⁰⁵ which makes the experiences within each country very specific and not fully transferable. Thus, more research exploring the experiences of businesses in other post-socialist countries could be a promising avenue for future research.

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103. Teichová, *The Czechoslovak Economy*.

104. Coufalová, Mikula, and Židek, “Competitiveness.”

105. Židek, *From Central Planning*.

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