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Fritsch, Michael

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Business Dynamics in the Transformation Process of Post-Socialist Societies – An Introduction

Michael Fritsch *

The transformation process of the former centrally planned socialist economies of Eastern Europe that started around 1990 was characterized by pronounced dynamics in terms of entries and exits as well as within incumbent firms. While under socialism privately owned businesses were rather restricted and played only a minor role in the economy, the switch to a market-based system opened up new opportunities for business formation and entrepreneurship. However, new business formation in these countries was severely hampered by a number of factors such as the lack of experience with a market economy, a shortage of resources, inadequate institutions and policy as well as a low level of societal acceptance of entrepreneurship. For such reasons, the contribution of the ‘bottom-up’ transformation of emerging new businesses to economic development during the last 20 years has been much smaller than what many observers had hoped for. The opening-up of the economy to international investors, and new competition from start-ups as well as from foreign firms has also exerted massive pressure on the incumbents, leading to dramatic changes of their internal organization and relationships.

The three papers collected in this section of the special issue all deal with the transformation of the business sector in former socialist economies. While two of the contributions (Chepurenko and Lehmann) focus on the case of Russia, the third paper (Smallbone and Welter) assumes a more general perspective and provides examples from several former socialist countries. Alexander Chepurenko analyzes the development of an entrepreneurial new business sector in Russia. He shows that at present new businesses do play a significant role in the Russian economy but that much more could be done to cultivate productive entrepreneurship there. Chepurenko’s analysis is confirmed by the results of David Smallbone and Friederike Welter, who focus on institutional challenges for policy makers with respect to entrepreneurship in the post-socialist economies. They argue that the switch from a planned economy to a market economy in these countries requires a fundamental change of the role, type, and behavior of public institutions as well as the establishment of new forms of governance. Governments in the post-socialist countries have reacted quite differently to these challenges, thereby, contributing to the considerable differences in entrepreneurship and new

* Address all communications to: Michael Fritsch, Friedrich Schiller University Jena, Carl-Zeiss-Str. 3, 07743 Jena, Germany; e-mail: m.fritsch@uni-jena.de.

business formation that can be observed between these countries. According to Smallbone and Welter, the experiences of the former centrally planned economies during the last 20 year should be included in any attempt to assess the wider role that the state plays in influencing the development of entrepreneurship. Hartmut Lehmann's contribution provides an in-depth analysis of labor relations within an incumbent Russian firm during the transition process. He particularly shows how market forces, particularly outside opportunities for employees in the local labor market, have a strong influence on wage policies within the firm.

All three papers of this section provide important insights into business dynamics and related policies in post-socialist countries. They also make rather clear that the developments that we find in the post-socialist economies of Eastern Europe also have general implications that may apply to many other countries. This makes the transformation processes in the post-socialist countries an important field of social research.