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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

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#### Empfohlene Zitierung / Suggested Citation:

Best, H. (2005). Cadres into managers: structural changes of East German economic elites before and after reunification. *Historical Social Research*, 30(2), 6-24. <https://doi.org/10.12759/hsr.30.2005.2.6-24>

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## Cadres into Managers: Structural Changes of East German Economic Elites before and after Reunification

*Heinrich Best*\*

**Abstract:** In East-Germany, the processes of democratic transition and market transformation took a form that was particular and distinctive from other post-communist countries: Nowhere else was the transfer of institutions of market economy, the elimination of the old regime, and the inclusion into the frameworks of supra national markets so sudden and so radical than in the former GDR. Our paper explores the formation of entrepreneurs and of the higher echelons of management in the manufacturing industry after unification from a long term perspective. Particular emphasis is given to the starting configuration of East-Germany's transition to an open market economy, and to the "afterlife" of the GDR's economic elite after unification. It can be shown that some of the structural and attitudinal differences between East and West-German economic elites can be attributed to GDR inheritance, whereas other differences have emerged as an adaptation to East-Germany's subordinate status in the German economic system. Other developments can be seen to have resulted in a convergence between Western and Eastern parts of Germany.

The paper is based on survey data and processed-produced data gathered by the DFG funded Collaborative Research Programme: "Social Developments after Structural Change. Discontinuity, Tradition, and the Formation of Structures (SFB 580)".

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## Research questions and data sources

The (re)transformation of a socialist economy into a capitalist one has been compared to the restoration of a gelding into a stallion: both operations are highly complicated, both involve the reassembly of previously dissected components using both old and replacement parts, both require a vital piece to be replaced for a successful retransformation, and in both cases the test for success is how it works and not how it looks. In the restoration of capitalist economy the vital piece is a body of entrepreneurs and managers who are willing and able to execute and apply the rules and mechanisms of capitalist market economy. They are the actors and agents of economic transformation whilst the general population is reduced to a largely consummatory, sometimes suffering and occasionally protesting role. This paper deals with the formation of a body of entrepreneurs and managers in what was the GDR and is now East Germany (excluding West-Berlin as a fragment of the old West).

Its main subject is to examine the structural side of the formative process which involves the recruitment and career patterns, training, socialisation, and general social 'embeddedness' of East German executive directors and managers (including their social origin and choice of spouse). These analyses are cross-sectional, starting in 1989 (the last year of the GDR as a 40 year old 'mature' communist regime), and ending in 2003 (the final year of the Jena management survey).

Our empirical evidence consists of two main bodies of data: one is a download of 13.749 biographies from the GDR's 'Zentraler Kaderdatenspeicher' (Central Cadres Database) which was constructed during the 1980s under the auspices of the GDR's Council of Ministers (Best and Hornbostel 1998; Best and Gebauer 2000; Best and Hornbostel 2003). With records covering approximately 700.000 persons including the whole 'functional' elite and the upper echelons of the GDR's service class (but excluding full time party functionaries and officers in the military and the security apparatuses) this unique data source provides us with full records of their social and political family backgrounds, their family situation in the 1980s, their occupational careers, educational backgrounds, party and organisational affiliations, status in the nomenclature and further information regarding their position as cadres (such as foreign language skills, entitlement to travel into non-socialist countries etc.). Altogether it provides an immensely valuable source for studies into vertical and horizontal differentiations of a socialist society and particularly for those researching the formal and informal mechanisms of recruitment and careers within of the cadres' apparatus. The subset of about 13.5000 persons used for our paper includes all directors and heads of department of the GDR's nationally owned (i.e. state run) manufacturing industry (mainly vehicle industry and mechanical or electrical engineering) that held their positions at some time in 1989. The download from the central cadres database was designed to match

the target population of the Jena management study in 2003 which provides a representative sample of executive directors and entrepreneurs of middle and smaller firms in the German manufacturing industry (n = 749) (Martens, Michailow and Schmidt 2003).

These two databases allow for detailed structural analyses of the bodies of managers and directors of a core segment of (East-)German industry immediately before the end of communism and after 13 years of post-communist transition and inclusion into the ownership structures of West German and international capitalism. To bridge the time gap between these two cross-sectional portrayals, we refer to several other management studies performed in the 1990s, in particular to an earlier survey of East German managers carried out by a group of Jena researchers in 1997 (Gergs, Hausmann and Pohlmann 1997; Gergs and Pohlmann 1999).

Based on these data-sources the following main research questions are addressed:

- 1) Was there in the GDR as diagnosed in other communist societies – an emergence of a ‘technocratic managerial elite’ (King and Szelenyi 2004:128) that formed the core of a ‘New Class’ (Bakunin 1870) or a ‘New Technocracy’ (Ludz 1967), being distinct from and conflicting with an old ‘bureaucratic estate’ that defended its control of the reins of power? What was the degree of and what were the distinctive features of ‘classness’ of the ‘New class’ and in particular of its technocratic-managerial core? Are there indications that it was able to reproduce itself as a class?
- 2) What was the fate of the ‘technocratic-managerial elite’ in the processes of transition and post communist transformation since the late 1980s? Was there a ‘purge’ of the cadres of GDR firms followed by the establishment of a predominantly new and overwhelmingly West German management in the East – as suggested by theories of ‘colonialisation’ –, or was there a significant survival and continuing employment of an East German technocratic-managerial elite in the service of West German and foreign capital owners – i.e. the formation a kind of East German ‘compradores’ management, being locally in charge but answering to external centres of control? Or did the managerial elite and the directorate of East German Economy transform into a new post-socialist bourgeoisie which acquired autochthonous property rights and autonomous entrepreneurial authority?
- 3) Fifteen years after the fall of the wall and fourteen years after reunification, are there still east-west differences to be found in the managerial and technocratic strata of German economy? Are these differences an inheritance from the GDR or have they emerged after reunification as an adaptation to East Germany’s subordinate status in the German economic system? Are east-west differences in the composition of the

management of German companies likely to affect the performance of German economy at large, are they potentially dangerous as a starting point for an east-west cleavage and do they have a complement in the attitudes and general behavioural orientations of East and West German managers? (The latter research question will be addressed in R. Schmidt's paper).

### Structure and change of GDR's managerial stratum in the late 1980s

The notion of a 'new technocratic and managerial elite' has been inspired by developments in Central East European countries like Hungary where there was a massive turnover within the managerial and technocratic stratum before 1980, with highly qualified young professionals accessing vacant positions and even the development of a body of 'socialist entrepreneurs', foreshadowing the end of communism (Lengyel 1987; Szelényi 1988). None of this can be said about the socialist directorate and 'managerate' of the GDR economy. On average the cadres of the GDR's manufacturing industry had held leading positions heads of department as for 13 years (directors: 20 years) and were between 48 and 49 years old. About 23% of the cadres had been in such a position for five years or less, but 22% had held a leading function for 20 years or more. About two in five directors and one in three of the other leading cadres were over 54 years old. These data indicate a rather low turnover in the managerial stratum of the GDR economy. In fact there were complaints and even a semi-public discussion about the geriatric state of the GDR cadre system (Best and Hornbostel 1998). Quite obviously, in the GDR a 'new technocratic-managerial elite' had not yet taken over. Changing recruitment patterns show, however, that the managerial stratum of the GDR's service class was transforming and that the overall impression of its rather traditional makeup – traditional in the sense of a recruitment pattern which was domineered by non-academic qualification (64%), working class origin (59%), high level of communist party membership (64%), and cultural parochialism (only 16% displayed certified English language skills) – was due to a retarded process of replacement circulation (Table 1).

**Table 1: Sample Information****All company directors and heads of departments  
of the GDR manufacturing industry**

n=13.749

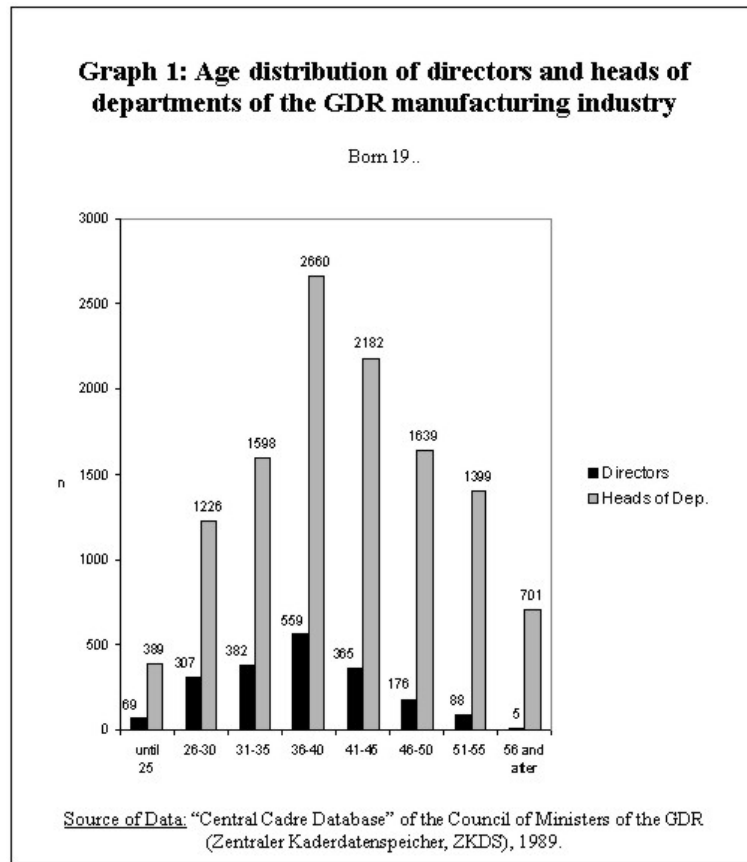
**Case statistics of used variables**

	valid		missing		<i>Number and share of cadres with relevant feature as depicted in graph</i>
	n	%	n	%	
Birth cohort <b>(1)</b>	13745	100,0	4	0,0	(Main age: 48 years)
Social origin <b>(2)</b>	13745	100,0	4	0,0	'Working class' origin 8137 (59,2 %)
Connubium <b>(3)</b>	11860	86,3	1889	13,7	Isogamy: wife/spouse is cadre etc. 2937 (24,8 %)
Qualification <b>(4)</b>	13745	100,0	4	0,0	University degree 5005 (36,4 %)
English language <b>(5)</b>	13745	100,0	4	0,0	Yes, certified skills 2236 (16,3 %)
Party membership <b>(6)</b>	13623	99,1	126	0,9	Communist party (SED) 8637 (64,9 %)
Gender <b>(7)</b>	13722	99,8	27	0,2	Female 2302 (16,8 %)
Travel permission <b>(8)</b>	13745	100,0	4	0,0	Yes, capitalist countries 1340 (9,7 %)

Source of Data: "Central Cadre Database" of the Council of Ministers of the GDR  
(Zentraler Kaderdatenspeicher, ZKDS), 1989.

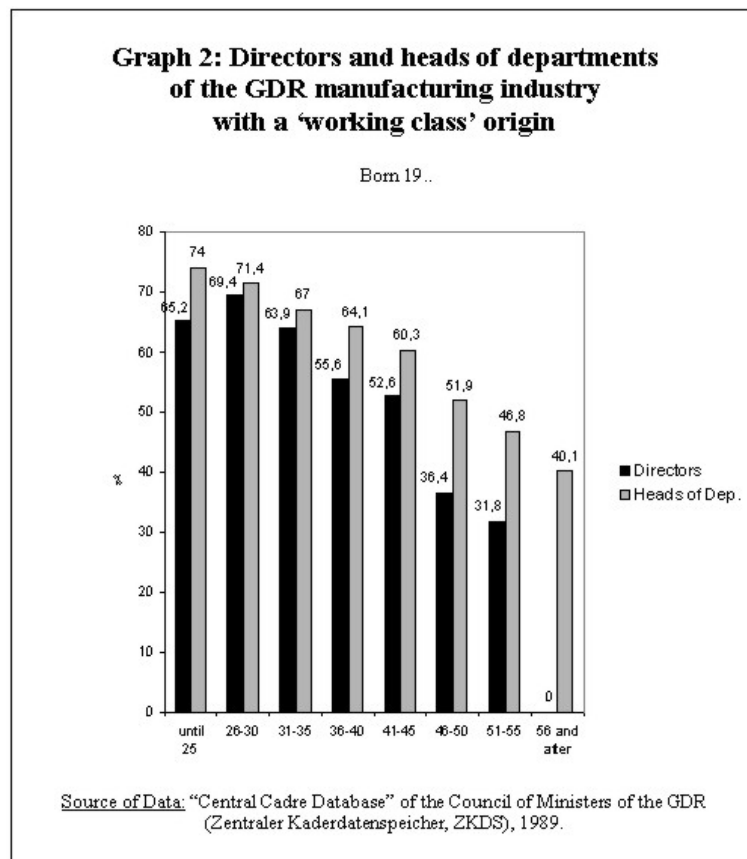
In most of these respects we see strong and coherent trends towards more professional qualification structures and less ideology-based recruitment patterns amongst the younger cohorts of the managerial stratum in 1989. In order to trace these changes we have divided the population of managers and directors (in so far as they were in the age range, 35 to 64 years) into age cohorts of five years. Results for the categories of the eldest (65 and older) and youngest (34 and younger) managers have to be interpreted with caution, because we should be aware that in the case of 'survivors' beyond retirement age (3% of the population) and very early starters, who were in their early 30s when they got into leadership positions (5% of the population), particular selection and recruitment mechanisms, which distinguished them from other cohorts with a 'normal' career pattern, were at work. It should also be noted that there are only 5 directors in the youngest age bracket, which excludes this category from percentage calculations (Graph 1).

**Graph 1: Age distribution of directors and heads of departments of the GDR manufacturing industry**



These reservations do not, however, obscure the clear trends in our data, which reveal a picture of growing social differentiation and distinctiveness of managers' recruitment patterns. The share of leading cadres with a 'certified' working class origin dropped from between 74% and 65% in the oldest cohorts to 32% and 40% in the youngest cohorts of directors and managers (Graph 2). If we consider that – according to another study (Best 2003: 498-500) – the category 'working class origin' was systematically inflated by between a quarter and a third of its size to meet criteria of ideological desirability, and that it included officially persons who originated from households of full time party officials and army officers, the trend of a deproletarianisation of managerial recruitment patterns becomes even more clear. Instead we see a sharp rise in recruitment from parental backgrounds which were classified as intelligenzia, employees, or 'others' – where we find the undesirable categories of communist societies, such as entrepreneurs, independent craftsmen, farmers or the lib-

eral professions. In the youngest cohorts of directors and managers 19% or 16% respectively were recruited from the intelligenzia and 23% or 26% respectively were recruited from the category 'others'.

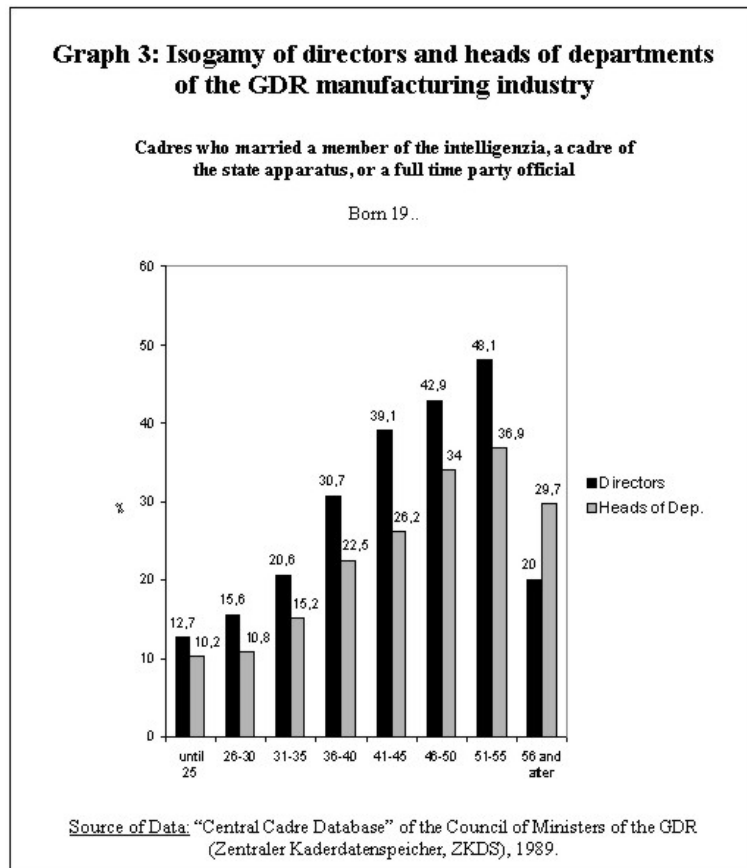


The shift towards a less 'proletarian' social origin and consequently the differentiation of recruitment patterns of cadres in the GDR manufacturing industry is underlined by data from the 2003 Jena management study which shows that 44% of East German managers, who had been leading cadres in 1989, had fathers who had been either leading cadres themselves or who had been self-employed<sup>1</sup>. A further 38% came from working class households with fathers who had been predominantly employed as skilled workers or foremen. The remaining 18% had fathers who had been employees in subordinate positions.

<sup>1</sup> For the Jena Management study see the contributions of Bernd Martens and Rudi Schmidt in this volume.

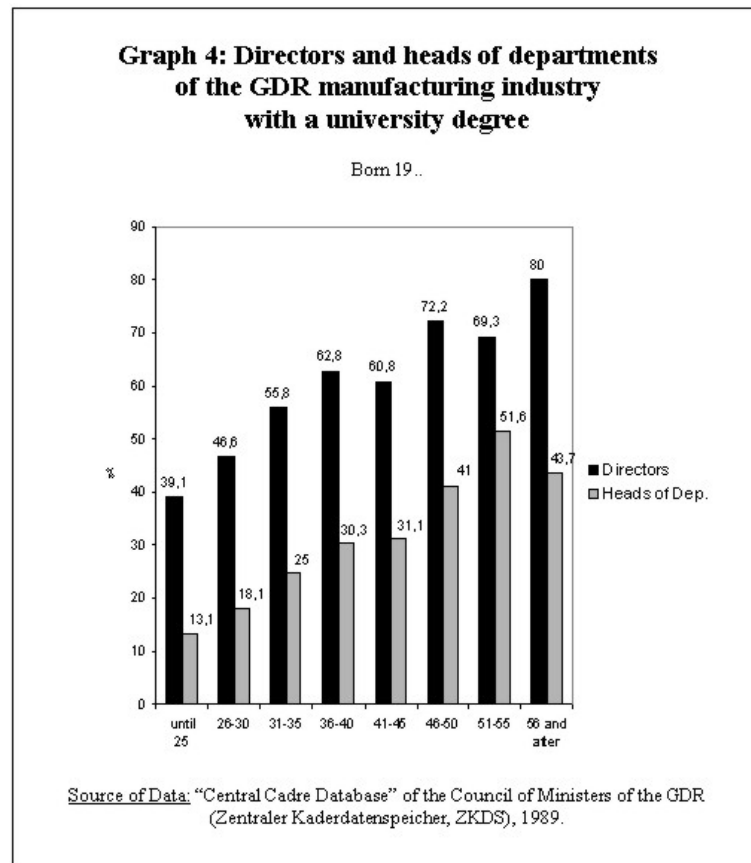


The corresponding percentage values for West German managers and entrepreneurs who had held leading positions in 1989 were 67%, 20% and 13%, which indicates a difference in degree but not a categorical distinction of managerial recruitment patterns between East and West. The managerial stratum of the East German service class was apparently transforming into a self-reproductive formation and losing its character as a channel for upward mobility.



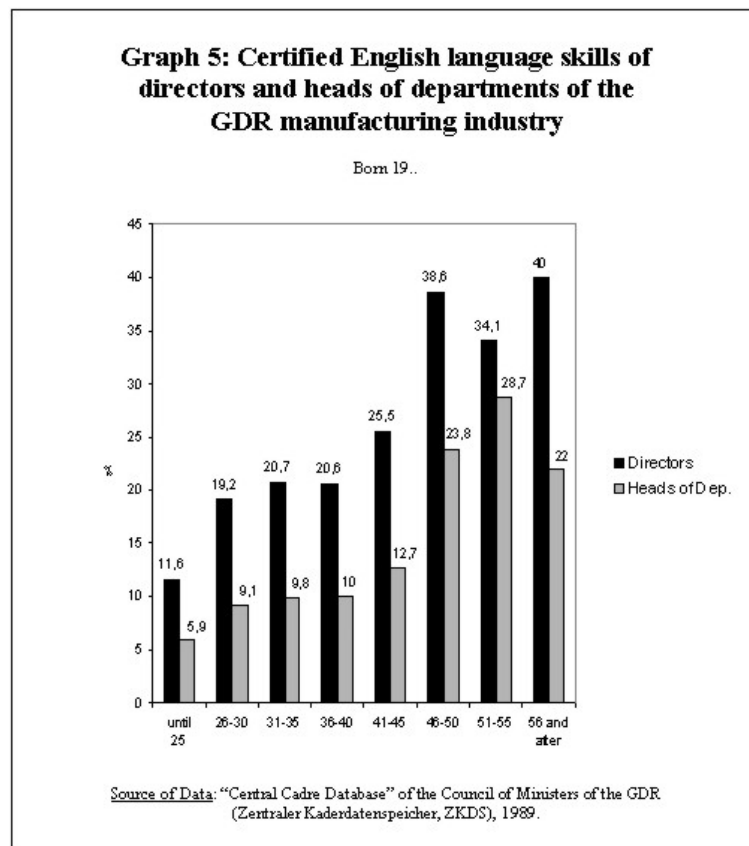
A similar process of deproletarianisation can be seen in intermarriage patterns (Graph 3). Here the Central Cadres Database provides us with a more differentiated system of social classifications which allows for a precise identification of privileged social categories of GDR society. If we add up spouses who had been either members of the intelligentsia, or who worked in the apparatus of the communist party (SED), or who occupied leading positions in the state administration and in the economy we see a dramatic increase of isogamy in younger

age cohorts, reaching 48% amongst directors and 37% amongst heads of departments. The youngest cohort should be not considered here in either group, because too many of its members were not yet married.



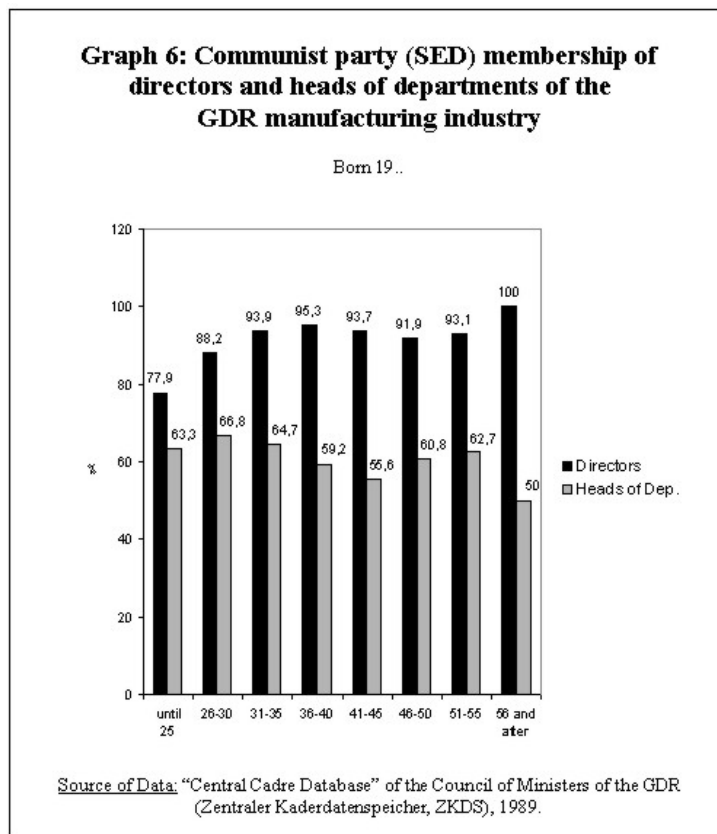
The processes of increasing differentiation (and particularly deproletarianisation) of social recruitment and growing isogamy of intermarriage patterns were complemented by a dramatic increase in the qualification levels of directors and heads of departments, with more than two thirds of the former and more than half of the latter in the age group of those who were born between 1951 and 1955 being university trained. (Again we should omit the youngest managers from our consideration, because a time consuming university education was at once an asset as well as a hindrance in a career which led to the higher echelons of socialist management). Approximately half of the university degrees were in natural sciences or engineering, the other half in socialist economics

including their equivalent of business administration. With a share of 6%, social sciences were of minor relevance in all degrees recorded (Graph 4). However, some directors – typically at the highest levels of concerns (Kombinatsdirektoren) – were sent to party academies to receive an additional ideological confirmation (nicknamed ‘infrared treatment’) and to put them on equal terms (at least with regard to their political instruction) with their high ranking counterparts in the party apparatus. Such qualifications have been not included in the breakdown of degrees reported here. Increasing levels of education went together with an improvement of ‘cultural competences’, which means that more than a third of the directors and about a quarter of the managers in the youngest age cohorts had obtained certified English language skills (Graph 5).



If increasing levels of formal education can be rightly interpreted as indicators of growing professionalisation, this development was, however, not accompanied by a marked and consistent fall in the degree of party affiliation

(Graph 6). There is only a slight indication of an increase in the gap between the directorate, which maintained a level of communist party membership well above 90% over all age groups since the 1931-1935 birth-cohort, and the management, which displays a slight and inconsistent downwards-trend from 67% in the 1926-1930 birth cohort to 50% among those who were born after 1956. In any case, communist party membership remained a requirement for those who strove for an ascent to the highest levels of socialist management. However, with an average age of 26, entry into the party of power was executed rather late – late, compared to other segments of the GDR’s service class and the power elite, such as high administrative officials or high ranking party officials. This also applies to directors, 26% of whom entered the communist party at the age of 30 or over. In these cases we can assume that entry into the party was a somewhat belated proof of loyalty and adherence to the regime by contenders for a managerial career who had previously demonstrated their professional aptitude on different grounds.



All in all, we can conclude that a 'new' managerial-technocratic counter-elite had not (yet) formed in the GDR, let alone ascended to the commanding positions of its polity and society. Instead, most of the elevated managerial and directorial positions of its core industries were occupied by cadres who had been in charge since the 1970s or even the 1960s. The make up of the GDR's managerial stratum still bore the traits of the late 1950s and early 1960s period when bourgeois specialists had been replaced by proletarian persons of practice who owed their careers to the communist party. This recruitment and career pattern began to change, however, with an influx of a younger generation of managers – the 'yuppies' of socialist economy – who bore the traits of professionalism and were predominantly recruited from non-working-class backgrounds and increasingly connected to privileged quarters of GDR-society by intermarriage. Their training provided them either with the technical expertise to construct products and design production, or with the organisational skills to run a department or a factory in the labyrinthic system of socialist economy. Communist party membership was still a career requirement for directors, but lost some of its importance for heads of department. If necessary, membership could be acquired at a later stage of the career. Although the 'New Class' had not yet formed, in 1989 we can see a marked generational cleavage within the corps of cadres of the GDR economy, predestining the members of younger cohorts for a continuation of their careers and marking the elder for an exit into early retirement when socialism collapsed and capitalism triumphed in 1990.

While the managers and technocrats of the GDR economy had not contributed to the downfall of the old regime, they had, however, also done nothing to 'save' the GDR from disintegrating or to continue the experiment of socialism – which some GDR intellectuals had attempted in vain. With very few exceptions the cadres of the GDR economy were prepared to welcome their colleagues from the capitalist West who came to explore what was worth picking up from the rubble of socialist economy.

### Exit, choice and liability: the formation of a post-communist management in East Germany

Astonishingly little research has been done in the turbulent transition of the cadres of GDR's socialist economy into the world of capitalist management. Reliable data about the composition of the 'new' East German management which was the outcome of elite circulation and primary accumulation after the regime change of 1990 do not exist before the mid 1990s (Pohlmann and Schmidt 1996; Windolf 1996; Gergs, Hausmann and Pohlmann 1997; Gergs and Pohlmann 1999; Schreiber et al. 2002; Martens, Michailow and Schmidt 2003). Scattered evidence tells us, however, about a partly spontaneous clean-

sing, in which the workforces of East German plants ridded themselves of managers they considered as incompetent and/or mere minions of the communist party, and about external intervention, whereby western – mainly West German – investors or the Treuhand Trust Agency (which was formally in charge of the privatisation of the GDR's nationalised economy) decided the fate of East German managers.

In fact, in most cases a multipartite bargaining process seems to have taken place which involved all the actors mentioned, plus East German managers whose insider knowledge and technical skills were considered to be indispensable to continue production and to prepare the hand-over of enterprises to their new owners (BvS 2003). In many cases, particularly with regard to small or middle sized businesses, the new owners were in fact 'old' owners who had initially survived the first wave of nationalisation after WW II and who had been expropriated at some stage after 1949. Between the early 1990s and 2003 about 17.000 East German businesses were re-privatised. Larger businesses were usually sold or otherwise transferred to investors, whereby foreign investors acquired around 6% of the Treuhand Trust Agency's portfolio and guaranteed significantly more than 10% of all jobs and investment commitments. Resulting from this complex mode of re-privatisations was a hierarchically differentiated ownership structure, whereby the proportion of firms under East German ownership and with a regional locus of economic control decreases from about 74% of all businesses including small and very small businesses (on average 16 employees), to about two thirds, if middle size businesses form the lower bound (on average 100 employees), to less than five percent, if only larger and stock companies are considered.

From the late 1990s until today East Germany's economy is distinguished by a heterogeneous ownership structure with 'colonialists', 'compradors' and 'autochthonous' entrepreneurs coexisting and the likelihood of the locus of economic control shifting from East to West Germany dependent on the size of the business in question – the larger the more likely. Managers from East and West German backgrounds were actively involved in this process of transformation, some of them through Contract Management Agreements which transferred the responsibility and competence for the privatisation of a firm to them and consequently gave them an advantage if they were interested to become proprietors themselves.

In the mid 1990s, when the dust of (re)privatisation began to settle, the new East German management structure became apparent. It could be clearly distinguished from the stock of economic cadres in the GDR as well as from the management of West German companies. The most obvious divergences between the East German cadres and management systems before and after reunification and privatisation were its size and the presence of a West German element after 1989. During the first half of the 1990s about two thirds of the leadership positions which had existed in the GDR economy in 1989 were

axed, while between 25% and 13% of the managers working in East Germany had lived in West Germany before 1990. The share of migrants from the West increases in relation to the height of the position. According to the Jena Management study of 2003, which provides the most recent data on the subject, 30% of the executives of the East German manufacturing industry come from the West, whereas only 1% of equivalent positions in the West are filled with East Germans. These data show that job-opportunities for managers with an East German origin have clearly deteriorated during the 1990s and that this development has not been compensated for by an improvement of their opportunities in the West. On the other hand we see that the overwhelming majority of senior management positions in East Germany, including positions at executive level, are nevertheless presently occupied by native East Germans. Our 2003 data also show that up until today more than four out of five (82%) of native East German executives in the manufacturing industry have held leading position in the GDR's cadre system before 1990. In 1989, 46% of these ex-cadres had been working in research and development or production, 25% had already risen to executive positions and the remaining 30% were involved in administration and planning. This distinguishes them clearly from their West German counterparts, 45% of whom had held executive management positions in 1989, and only 18% had a non-executive position in the areas of research and development or production. Compared to their West German counterparts a considerably larger proportion of East German managers has risen to their present executive positions since 1989 and has had a professional background in research and development or production rather than in administration or marketing.

The selective mechanisms working here favoured GDR cadres with formal technical and scientific qualifications. Of East German executive managers in the manufacturing industry 68% hold a degree in engineering compared to 38% of their West German counterparts who have prominently graduated in economics and business administration (West German managers: 40%, East German managers: 22%). In this respect the population of survivors from the GDR's cadre system is also clearly distinguishable from the total population of GDR leading cadres in the manufacturing industry in 1989, only 20% of whom had graduated in the technical or natural sciences. It is somewhat paradoxical that in East Germany a managerial 'technocracy' was the product and not the producer of the end of communism.

The rigorous selection mechanisms implemented during the period of replacement circulation in the first half of the 1990s favoured younger cohorts of GDR cadres, who were better trained, linguistically less parochial, and a better social match (in terms of social origin and connubium) for their potential western counterparts and superiors. Nevertheless we observe a remarkable ability of some senior and particularly of middle aged cadres to survive in managerial positions under capitalist conditions (Table 2). The first Jena management study

of 1997 (which targeted managers in the manufacturing industry) showed that 66% of the respondents were 45 years and older and that the strongest age cohort (24%) was made up by those who were born between 1941 and 1945. This result has been confirmed by other management studies carried out in the mid 1990s and traces can even be found in the 2003 Jena management survey whereby the middle-aged cohorts, including those who were born during the 1940s, are significantly stronger than in the West.

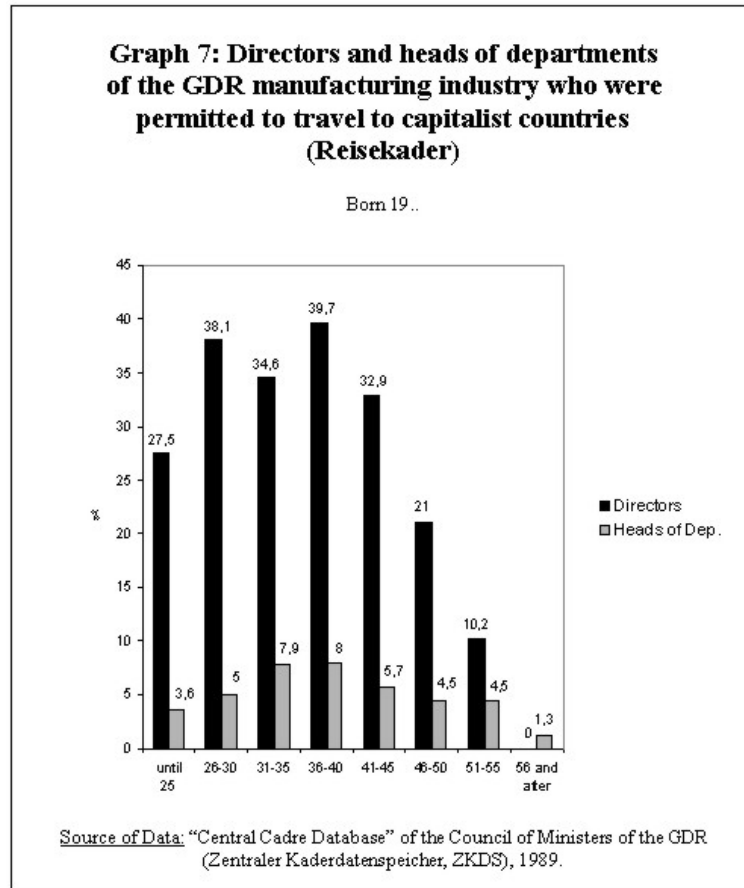
Table 2: Age distribution of senior managers, executives and directors in the East German/GDR manufacturing industry 1989, 1997 and 2003 in percent (2003 also West German managers). Born ...

	since 1956	1951-1955	1946-1950	1941-1945	1936-1940	1931-1935	before 1931	all	N
1989	5.1	10.8	13.2	18.6	27.7	14.4	14.5	100	13745
1997	18.5	21.0	17.2	24.1	13.4	4.4	1.3	100	157
2003 East	27.1	23.9	20.0	21.2	6.3	0.8	0.8	100	255
2003 West	43.9	13.2	15.0	16.8	8.5	1.0	1.6	100	494

Factors favouring late-middle age groups of the GDR management in the process of transition can be found in the social capital accumulated during their careers as socialist cadres and their ability to reinvest it during the turbulent times of transition in the organisation of efficient 'rope-teams' (Seilschaften). These were parties which formed on the basis of a mutual interest in exploiting the opportunities offered by the unsettled situation of transition. It was particularly interesting to have West Germans in the team who had access to valuable resources and could act as 'interpreters' in the new institutional order of market economy and representative democracy. Senior GDR cadres found it easier than their junior colleagues to establish Western connections since a much higher proportion of senior cadres had been entitled to travel to non-socialist countries for business trips before 1990 (Graph 7). In many cases continuous business relations had been firmly established with West German companies that virtually integrated GDR plants into the capitalist process of production and distribution. It was plausible to continue this cooperation after 1989 and to develop it into mergers with the GDR companies being the subordinate partners and their helpful management being rewarded with regional executive power. This configuration clearly favoured those GDR cadres who were in charge in 1989, without being obviously incompetent or loathed by their staff. *Per se*, links to the old regime and even STASI involvement was of no rele-

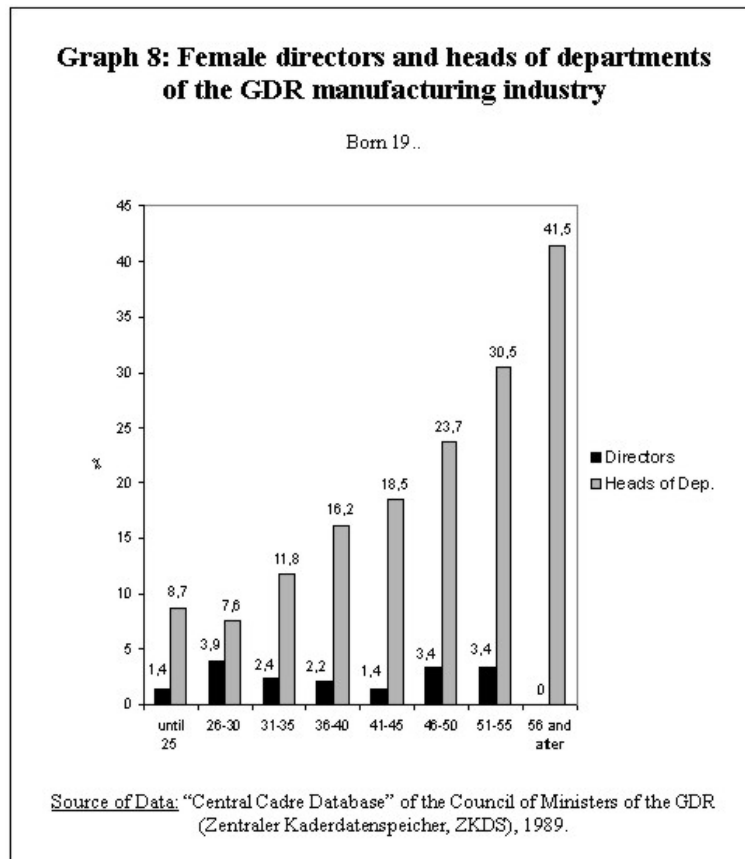


vance for West German business partners, as long as it did not create any unpleasant public noise.



Another factor favouring middle-age cadres over younger ones was the gender distribution. Seventeen percent of all leading GDR cadres in the manufacturing industry were woman. In the mid 1990s the female share in the target populations of various East German management studies had decreased to between 6% and 10%. In the 2003 Jena management study 8% of East German and 7% of West German executive managers are women. These aggregate data show a significant, although not dramatic process of ‘masculinisation’ of the East German management in the process of transition. It was obviously an advantage to be a man when it came to entering the career avenues of capitalist management (Graph 8). Our data also indicate that the process of female gen-

der de-selection was linked to seniority and hierarchy, in so far as in the GDR manufacturing industry the female share was only spurious at directorial level in all age groups and decreased dramatically at head of department level in older cohorts. Those who were in charge and who had accumulated the social capital to extend their career avenues into the new era were predominantly male.



Today's East German managerial and entrepreneurial stratum can be seen as a crossbreed between the communist cadres system and the capitalist management system. The selection and recruitment processes of the transition period have created a hybrid social entity which is clearly distinguishable from its GDR forerunners as well as from its West German counterparts. To refer back to the initial 'hippos' metaphor, given the problem of many East German companies to adapt to the world of market economy and in particular to develop

successful marketing strategies for technologically sophisticated products, some doubts have to be expressed as to whether a fully intact stallion has been restored. On the other hand we see an impressive display of stallion-like attitudes, in particular by the strengthening of patriarchal management styles and an inclination to maintain hierarchical structures.

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