

# Young Hungarian managers in foreign joint-venture firms

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## 1. Introduction

Management reform in Hungary proceeds at different paces and in different shapes depending on the type of enterprises. The slowest pace is found among the former large state-owned firms [1], in which the managers and employees are the same as before the privatization, catering to the same market monopolistically, and using the same political and business connections. This phenomenon of nominal privatization is not only found in other post-socialist countries [2,3], but also in many "capitalist" countries such as France, Japan and Germany where railways, airlines, electricity, gas and telephone have been or are going to be privatized. An exception is the Swedish railway system which, under the management reform, became divided into the rail system and the train system. The rail system became open to anyone including foreign trains on a use-fee basis, much like the highway tolls. This change created some degree of free competition. The slow pace of the management reform in former large state-owned firms in Hungary is therefore not a Hungarian phenomenon or post-socialist phenomenon, but a world-wide phenomenon.

The second category of firms in Hungary consists of endogenous firms which, during the communist era, were artificially state-owned but retained much of their own characteristics. They were small or medium-sized firms, and most of them wanted to stay small or medium-sized. For them, the post-communist restructuring was not a "reform" but a return to the Hungarian tradition.

The third category of firms consists of those which were founded after the fall of communism. Often they are called "entrepreneur" firms. They take a low-investment, quick-profit strategy and avoid high-investment, slow-return activities such as manufacturing. Hence their activities mostly consist of moving things back-and-forth such as distribution or trading. Most of these firms are very small, and do not need a system of management. In fact, absence of any management system is probably their strength, because they must move quickly, often intuitively.

Foreign joint-venture firms constitute another category. The author has found in them several new phenomena which distinguish them from joint-venture firms in Western Europe, North America and Asia, and which can become a prototype for Central and Eastern Europe. Most interesting is the emergence of young, capable managers, especially female managers. It indicates a potential reservoir of talent which were suppressed under the communist system. This article reports five cases of foreign joint-venture firms in Hungary. But before presenting them, I would like to mention some differences between the foreign joint-venture firms in Hungary and those in Western Europe, North America and Asia:

1) In Western Europe and North America, joint-venture often has the purpose of: a) enlarging the geographic coverage of the products or services; such as airlines offering combined routes or sharing a computer reservation system; b) alliance between related services such as hotels and airlines; c) sharing the investment costs such as the development of the Concorde airplane; d) vertical integration; and e) quasi-acquisition for diversification. In all these cases except the last, the partners are more or less equal in their role and power, and the interface consists of liaison persons or functions. In the last, one firm is swallowed by another.

2) In Asia, there are two main patterns: a) market penetration and distribution of foreign products, espe-

cially in Japan where distribution systems are complex; and b) low manufacturing labor costs, especially in Southeast Asia and China.

Of course, there are many exceptions and combinations. For example, Nike, an American firm, manufactured shoes in Taiwan in order to respond quickly to the fashion changes in Japan; Japanese firms manufacture cars and televisions in the USA and Europe in order to avoid import restrictions. In 2b), the manager of the joint-venture foreign firm is usually a foreigner, resulting in management frictions in the office. In 2a), the manager is usually a local, not a foreigner, but his/her function is narrowly specified or a routine, and not much creativity is needed or desired.

In contrast, in four out of the five cases which I studied in Hungary, the Hungarian managers, who turned out to be young, had much room to exercise their creativity. This was not what I expected, nor looked for theoretically. It was a discovery and a pleasant surprise to me. At the same time, I realized that the same circumstances may exist in other Central and Eastern European countries, and the Hungarian examples may serve as a prototype there. I think this is an interesting consideration to keep in mind for the readers of this article.

My approach is a grounded-theory approach. I do not set a hypothesis before taking a look at the actual situation. Therefore, theoretical implications are discussed after the presentation of the cases. The cases are code-named with the initial letter of the country of the foreign partner: F: France; A: Austria; S: Switzerland; U: USA; and J: Japan.

## 2. Case F

This is a joint venture with a French advertising firm which operates in 28 countries. Its clients include Air France, Bull, Procter & Gamble and Philips. The investment is 70% French and 30% Hungarian. The manager is a young Hungarian female.

All plans are made in Hungary, and everything is managed by Hungarians. Every six weeks either the Hungarian manager goes to France, or a French manager comes to Hungary. But some policies are imposed from France. For example, the office in France tells the office in Hungary to advertise Procter & Gamble even though it is not profitable to do so, because it is profitable to advertise P&G in other countries. The Hungarian office does not receive compensation for such unprofitable advertising.

Actually, it is more profitable to advertise Hungarian firms than foreign firms because the commission level in Hungary is higher than in France. If some commercials are made in France, a Hungarian portion is added. For example, 30 seconds of a TV commercial may be made in France, to which five seconds are added in Hungary.

All advertising agencies in Hungary with common clients meet often. For example, Philips can advertise through many agencies, but try to divide brand lines and allocate them to various agencies. An agency cannot advertise for competing firms: i.e., if an agency advertises for Philips, it cannot advertise for Tungstram.

The firm does not do market research, but contracts it out to other firms. A function of the firm is to check on site how the advertisements are displayed. For example, the firm checks how its posters are displayed in bank offices.

There is no pressure on deadlines imposed by the office in France. The financial target for 1993 was to reach break-even.

There are incentives for Hungarians to work for firms such as Firm F. Salary is higher in foreign firms, and there are fringe benefits such as use of company cars, gasoline allowance, clothing allowance, lunch allowance, and tickets for business travel. The lunch allowance of Firm F is 150 forints (about US\$1.50). Job security is also higher in foreign firms than in Hungarian firms, because Hungarian firms may go out of business. As for bonus, everyone is paid for 14 months a year, and there is additional profit-sharing if business goes well. There are also some disincentives. Employees cannot hold an outside job, whereas it was customary for Hungarians to hold two or three jobs. Foreign assignment and cross-national career advancement are not yet practiced by Firm F. A housing problem could exist upon return, whereas it was easier to move during the socialist era because the government provided housing.

Recruitment of persons with management skills and foreign language proficiency is difficult. Put in another way, opportunities are wide-open for those with management skills and foreign language proficiency.

Firm F provides training programs in foreign countries for two and three weeks at a time. It also offers three-day courses. Specialized training firms exist, which use programs made in foreign countries but taught by Hungarians. The level is about the MBA level. Some of the training firms are good.

### 3. Case A

This is an Austrian trading firm. The investment is 90% Austrian and 10% Hungarian. All staff is Hungarian. The manager is a young female. However, the Austrian office is planning to appoint an Austrian manager.

The regular contact between the Austrian office and the Hungarian office consists of weekly and monthly accounting reports. The discrepancy between the Austrian and Hungarian accounting systems is always a source of conflict. To the Hungarian government, the monthly accounting report is made on the 15th or 20th of the month, while the Austrian office requires it on the 10th of each month.

The main products of the firm's trading are: cameras, films and cosmetics. Another photo product dealer operates in Hungary and Poland. It has close connections with Fuji, and in 1990 it tried to sell Fuji products in Hungary, but around 1987 or 1988, Marubeni opened a branch in Hungary and dealt with Fuji products. Therefore the former firm had to run photo shops with products from other brands such as Kodak, Agfa and Forte (a cheaper, Hungarian version of Fuji). It could not sell medical and scientific films because Marubeni sold them. However, Marubeni is a wholesaler, and has no film-developing shops.

Firm A buys Fuji films from the first photo product firm's branch in Poland as this firm can get Fuji films cheaper from Japan to Poland than from Fuji Film Hungary, which is Marubeni-related.

Black market of cameras is non-existent because there is no luxury tax on cameras, and the normal tax is only 11%. But black market exists for cosmetics because the luxury tax is 70%, the normal tax is 20% and value-added tax is 30%.

Firm A has five retail shops of photo products, with 12 employees. The shops can develop films. The firm is a distributor of cosmetics to shops. All sales and import decisions are made in Hungary. Cosmetics are imported directly from Germany and France. A problem is that the retail shops ignore payment deadlines.

I mentioned that in France the consumers preferred to buy cosmetics in small shops where they knew the owner and trusted his/her advice. I asked where the Hungarian consumers preferred to buy cosmetics. She said that everything had been nationalized and the state shop AZOR was where people bought everything. Therefore, small independent shops are not seen as better. Furthermore, in Hungary, cosmetics

of all brands are sold in each shop, and there are no brand shops.

Now Hungarian shops have skin test machines, but no computer simulator of the face. However, the consumer can superimpose a hair style on the face and have a photo taken, and bring the photo to a hairdresser.

During the first year of the joint-venture firm (1990–1991), it had only five Fuji shops and operated with loss. When she took over the firm in 1991, it had a deficit of 5,000,000 forints (then about \$70,000). She added cosmetics. In 1992 the firm made 3.5 million forints profit even though its Fuji shops were still unprofitable. In 1993, the firm was hit by a recession. There was neither loss nor profit. She added L'Oréal, but the Austrian office did not understand her and is planning to replace her with an Austrian manager. In the Hungarian office, however, nobody except one or two persons speak foreign languages, and there will be a problem.

I asked her how the Austrian office was dealing with the Polish office. She said that the manager in Poland was Polish, and a man from Austria went to Poland often.

In the Case of *Firm A*, the young female Hungarian manager introduced a radical innovation, turned the losing firm around to make a large profit, was hit by a recession, was misinterpreted by the parent company, and was fired.

### 4. Case S

This is basically a machine installation and repair/maintenance firm. The main bodies of the machines are manufactured in Switzerland. Some parts are made in Hungary. The investment is 75% Swiss and 25% Hungarian. The joint venture began in 1990. The manager is a young female Hungarian. All employees are Hungarian including a former Hungarian refugee who went to Germany during the 1956 revolution.

The manager speaks English and Russian, and she had been temporarily assigned to Russia. The firm makes some parts of the machines. There are other firms in Hungary which make other parts. The inventory level of the parts is kept high, about two weeks.

60% of the employees are service/repair persons, of which one-sixth are machine trouble-shooting specialists, 20% of the employees work in installation, 10% in parts manufacturing, and 10% are office workers.

Inventions are made by individuals, not by interaction, but there are no secrets between inventors. Team work is not good. If you make a team, the members disagree.

The office in Switzerland does not understand that in Hungary the payments from the customers are often delayed, and it takes half a year to get the payments through court. The delays are intentional because one can get more interest on bank deposits than late charges.

The firm has 300 full-time employees and no part-time workers. The bonus/salary ratio was 65/35, but is now 30/70. Previously, the bonus did not depend on individual productivity except for managers, but now it does. No second job outside the firm is allowed. In the old system, the workers used to sit and collect overtime pay.

In the factory, there is neither job rotation nor an assembly line. Each person makes a complete piece.

The manager initiated an individual productivity evaluation. There are three criteria: innovation, work pace and mistakes. Previously, anonymous mutual evaluation was tried but was not effective: everybody rated others to be at the middle of the evaluation scale.

New employees go through a probation period of three months. If the failure rate is more than 5%, they are dismissed.

The manager is the youngest of the five managers of the five firms I interviewed. She looked almost like a very friendly university student. Yet of the five managers of the five firms, she had the largest number of employees (300) under her, and she initiated individual productivity evaluation, and does the evaluation herself. One might expect her to be dictatorial, but she was very congenial. The interview was like a conversation among students. She has a Ph.D. degree.

## 5. Case U

This firm is 100% owned by an American firm. It distributes the American firm's products. It began in 1991, and has about ten foreign managers in Hungary, who were recruited in Lausanne and had been in many countries. In addition, some managers of the Lausanne office come to Hungary for a few days at a time.

There are 800 employees divided into departments under different managers. Some of the employees are sent to Lausanne for on-the-job training, but there are no long-term foreign assignments for Hungarians.

There have been short-term foreign assignments, but Hungarians prefer neighboring countries in order to come home on weekends.

Employees must work quickly, do everything fast, and work overtime without extra pay. The salary is high, but there are no allowances for gasoline and other items, and no bonus. There is, however, lunch allowance of 1000 forints (about \$10) per month (1000 is the maximum tax-free amount). No second job is allowed. Retirement is on the national system, not on the company system.

Employees expect to stay about five years. Recruitment is difficult for this firm. Applicants, except young applicants, do not want to work from 8:30 a.m. to 6 p.m. Training is given to the employees once a month for two or three days, either in Hungary or in Lausanne. Foreign employees working in Hungary do not socialize with Hungarians.

Before 1991, one of the female employees I interviewed worked for a firm under a Swedish publisher. It had 35 employees and the atmosphere was more relaxed. It printed and exported non-Swedish versions of Swedish children books (picture books) in many European languages. That firm was a joint-venture which began in 1988. But in 1992 it became 100% Swedish-owned with an all-Hungarian staff. Some of the story topics had to be changed due to cultural differences. She likes Stockholm but does not like Lausanne.

She made a comment on the medical care in Hungary. The state medical care is not good. One prefers to have his/her own physician. The same physician can treat a patient either in the state system or as a private physician and give different kinds of treatment, depending on the system chosen by the patient.

Unlike the previous cases, she is not "the" manager, but was one of the managers in the same firm branch, who have specialized functions and many of whom are foreigners. At the same time, an American "corporate culture" seems to be imposed, such as doing everything fast. The Hungarian office is under the Swiss office of an American firm. However, she stated that there is no deadline conflict on the monthly reports which was mentioned in *Case A* (Austrian-Hungarian joint-venture).

## 6. Case J

This firm is a security (stock) dealer. The investment is 51% Japanese, 39% Hungarian and 10%

American. At present, the firm concentrates on bonds and commercial papers, and considers it too early to deal with stocks. There are 12 employees, of whom two are Japanese. The president is Japanese. The second is Hungarian. The person I interviewed is a young male Hungarian, who was a telecommunication engineer in Budapest and has obtained an MBA degree at an American business school in Madrid.

The joint-venture began in 1991. The activities consisted of banking and security dealing. Now it is more like a general banking firm. The Japanese partner, which is a large security firm in Japan, wants only security. This partner tends to avoid risks, while the Hungarians in the firm are more risk-oriented. The firm now concentrates on bonds and commercial papers of Hungarian monopoly firms and Hungarian branches of multinationals such as Shell Oil. Administratively the joint venture firm belongs to the London branch of the Japanese security firm, and often business opportunities are missed while waiting for decisions from London or Tokyo. The Tokyo office considers Hungary as a high-risk country mainly because Hungary is unfamiliar to them. More decision authority should be given to the office of Hungary. The office in Hungary has no access to the information or expertise which exist in the office in London. In order to get expertise from London, a mandate is required. But to get a mandate, expertise is needed. The London office had success in Praha where it has representatives only. On the other hand it dealt with a Hungarian pharmaceutical firm and Danish hotels in Hungary with poor results. The Japanese partner does not practice cross-national career advancement. But its competitor Citybank does.

The person I interviewed is currently working on the financial aspects of deregulation of local telephone calls in Hungary. International and long-distance calls are under monopoly, but local regions can choose their own telecommunication firms. Siemens (Germany) and L.M. Ericsson (Sweden) are in the Hungarian national monopoly system, but regions can choose other firms for local calls. After choosing a firm, the regions are given 25 years for conversion. During the first eight years an exclusive right is given to one firm. The interviewee is collecting information from Canada and Finland where local calls are deregulated, is finding foreign technological business partners (telecommunication firms), and making a feasibility study.

After getting the present job, he was bored for four or five months because every time he suggested a

deal, the London office or the Tokyo office told him to postpone it until "next time". If Hungarians work out some contract, the London office kills it. People who have little work to do, such as the tea lady or the driver, get paid almost the same as other busier and higher-level employees. He said he may be sent to London for training.

This case is interesting because an *engineer* with an *MBA degree* in a *private firms* is working on *public* (regional) *policy and strategy*, and *finding foreign business partners* and conducting a *feasibility study*. It is a combination of two qualifications, two institutions (private and public) and three different activities in one person, each of which usually requires a specialized expertise. Public policy and strategies are made by governmental planners or regional planner possessing a specialized certification (an American example is certification by the American Institute of Planners). Finding foreign business partners is done by business executives, and a feasibility study is often conducted by economists and may involve social impact assessment and/or environmental impact assessment which include cultural, sociological, biological and psychological studies. The individual is exceptionally talented. Such individuals are difficult to find, and if there are such individuals, business firms have no effective way to discover and make use of them, and their talents are wasted. This happens in every country. These individuals are frustrated in a system of centralized decision making, such as Firm J.

To the five cases presented above, I would like to add an interview with a man who, as a chemical engineer, worked for a large state-owned firm for many years, and in 1992 created a business persons' association.

He graduated in 1957 as a chemical engineer, and entered a state-owned company which imported raw materials for plastics. In the early 1970s it was the only company to import from Shell Oil. In the 1970s there were ten state-owned plastic-related importers: each company imported from one foreign supplier. They competed on price. Quality did not matter.

He mentioned the emotional aspect of privatization in Hungary. Emotionally, factories belonged to Hungarian people. In privatization involving foreign firms, Hungarians feel that a part of their "person" is lost. When Tungstram was privatized and sold its machines and buildings, Hungarians felt that things were lost and the money disappeared.

The employees can buy back the stocks, thereby feeling that they regained a part of them. But it is

important to teach them that stock ownership does not imply guaranteed employment: stock ownership and employment are different matters.

Likewise, under socialism, medical care was given free. After the end of the socialism, medical care has become an object of payment: either paid by the patient, or by private insurance. People feel that medical care should not be merchandised.

On the other hand, there is a Hungarian saying that you should steal more than what is stolen from you. Thus business firms purposely delay their transaction payments because the interest on the money in the bank is higher than the late payment penalty.

The interviewee started an association, which now has 26 firms as members. The membership fee is 75,000 forints (about US\$750). The association runs seminars, gives advices (for example, about career choice), and places student interns to business firms. So far it has placed 30 interns.

## 7. Interpretations and implications of the cases

While the privatization of large former state-owned firms is slow, young talents, especially women, are emerging where they can express themselves, especially in foreign joint-venture firms. It is important to note that these talents existed without finding an outlet under the communist system, and therefore they are *not* a product of foreign firms. Foreign firms should not consider Hungarians as uneducated, untalented or backward. It is a matter of discovering those whose talents could not find an outlet under the communist system.

One caution is necessary. It is the "returnees", or those who went out of Hungary during the 1956 revolution, and are now returning to Hungary. Many of them, more than foreigners, look down upon Hungarians. They have the "Uncle Tom Syndrome". Many of them have very poor psychological relations with Hungarians who stayed in Hungary. It is better to be wary of the returnees even though some of them may be excellent.

Another caution, which is not highly necessary in Hungary, is to avoid exocomformists. Exocomformists are those who conform to a foreign culture

and turn their back to their own culture. Exocomformists are not numerous in Hungary, even though there are some variations of them, for example, Skinheads (Neo-Nazis). But Skinheads are more xenophobic and racists than exocomformists. In any event they are not significant in the business world.

There are immigrants and foreigners living in Hungary, but their role in the business firms is minor. 280,000 gypsies were killed by Germans, and 100,000 survived. Now there are one million gypsies, constituting 10% of the population. In some villages, gypsies account for 90% of the population. There are also 100,000 Arabic people, 12,000 Chinese and Vietnamese. From Yugoslavia and Sri Lanka, with which Hungary has mutual agreement of visa waiver, many refugees came.

Hungarian is a fascinating language, even though it takes time to learn it. German is understood by a considerable percentage of Hungarians because of Hungary's historical tie with Austria. Russian is understood by many, even though not liked.

The emergence of young talented managers in Hungary makes us hope that similar situations exist or will exist in other postcommunist countries where the level of science and technology was high before World War II, such as the Czech Republic. In those countries as well as in Hungary, it is important to let the local managers run the firm instead of imposing a foreign firm's management principles and methods. Young Hungarians can build their own experience and invent their own management systems. What they need is an opportunity for responsibility and inventiveness, which does not exist in large former state-owned monopolistic enterprises which have been nominally privatized.

## References

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