

A SUCCESS STORY IN THE 'LIBERAL SOCIALISM'

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Abstract

The founders dealt with computer software and hardware. At first they used the private activity as their secondary job, only to gain supplementary earnings. These people worked for in Hungary well-known, acknowledged institutions and big companies' research departments. They gave excellent work for quite low wages. The initiative idea of these professionals was merely to make more money, but the ongoing and strengthening conflicts with the managements forced them to make their own business.

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In the decades of the socialism we were used to the fact, there were no spontaneous bankruptcies, nor swelling of companies, but only conducted happenings. Big, private enterprises did not emerge in reality, but such an idea did not even flash up in the minds of party decision-makers and executives of market — as it could have been impossible, too.

Except some short phases only, the private sector in industry and services had no way for prosperity. From the mid-70ies the private sector got big beats on its head. The turn came at the end of the 70ies, and at the beginning of the 80ies, when the rapidly growing foreign debt and the threatening economic crisis forced the party to do something.

From 1982 it became possible to set up so-called gmk-s (economic work groups: a limited form of private venture) either as a full-time job or as a part-time one. The objective of gmk-s was to give the chance for creative people to make more money (working harder and much more than 8 hours a day) instead of political blusterings. Party leaders (and researchers, too) thought, that it is mainly a political step and will be restricted within the limited frame of the so-called market socialism.

However, life moved in another direction. Gmk-s showed, a minimal level of liberalization could be enough for private sector to make their own business with great success.

1. Why It is Successful?

This study tells the success story of a private company. This Venture was established in 1983, but some of the participants had stepped into the market one or two years before. The founders dealt with computer software and hardware. At first they used the private activity as their secondary job, only to gain supplementary earnings. These people worked for in Hungary well-known, acknowledged institutions and big companies' research departments. They gave excellent work for quite low wages. The initiative idea of these professionals was merely to make more money, but the ongoing and strengthening conflicts with the managements forced them to make their own business.

The big turn came in 1984, by taking the first steps on the PC-market: beginning the computer trade. Thanks to Hungarian shortage economy the Venture got a very good market position, resulting in a speedy growth and high profit.

They began to work in the flat of one of them, but by now their company has got departments in five towns, many shops, stores, bureaus, a headquarter building, and a trade network with more than one hundred points. They have entered many new areas. Meanwhile their turnover grew from five million to 1,000 million forints, having a large part of the market in their hands (computer selling, software making, fax, copying, machine selling).

The unexpected success of some private ventures was due to the slight liberalization in the 80ies. The so-called soft dictatorship in Hungary gave the chance to progress, but only for those ventures which could tolerate the different soft methods of the state. Not only the tax regulations — which dispreferred the private sector — hindered the ventures, but also the permanent control from various authorities.

My chosen venture (let's name it SUC from the word 'success') sensed on its own skin the problems that were typical in Hungarian socialism.

In 1982 the idea of the private company was oppressive; in 1990 it was natural. In this period one of the greatest problems of SUC was how to handle the question of private property and property shares. This problem has created conflicts and tension even nowadays.

2. The Stages of Growth

The case study is about the stages of growth, possibilities, conflicts and problems, the changes in structure and functioning through the period 1982 to 1989. The case study, based mainly on interviews, differentiates six — in some extent overlapping — stages.

2.1. First Stage: Disappointment

The origin of the story goes back to 1980. The four independent groups which have made up the venture were employed by big companies, institutions. Most of these people were well-skilled, bright men, having a world-wide learning of the high-tech of their profession, with many professional study trips behind them. They worked in computer technology, both with hardware and software.

The primary motivating factors were not on the side of making a venture, a small or large company (positive motivators), but on the side of bad-feeling, disappointment, elementary private financial problems, not enough earnings for dressing, housing, buying a car — so-called Hygiene-factors according to Herzberg.

You can see here the syndromes of Hungarian large companies. Disinterest in handling of manpower effectively, or handling the customers 'gently'. If a company or institution decided to purchase a computer, they had to wait for two or three months for a letter of acknowledgement appointing some 15 to 18 months delivery deadline.

What were the real motivators of founding SUC? As a part-time job they began to work for organizations which needed good quality production, which had money but not enough to throw out of the window. The employers tolerated and encouraged part-time jobs for one or two years. The organizations began to cooperate with the private ventures, giving out them jobs, and so more money for their employees. Thus ventures stabilized manpower, and decreased wage conflicts. However, it could last only for a short period of time. The harmony came to an end. Conflicts emerged between the employees in and out of the ventures. The good productivity of the ventures appeared as spontaneous criticism on the big company's activity. The ventures made it possible to trade those software and hardware licences, the developing and selling of which were hampered at their main workplaces for so many years. Both organizational leaders and employees could see and feel these conflicting events very clearly.

In 1982 (i.e. the beginning of gmk era in Hungary) one could see many newly developed and successful ventures. The founders of SUC imported the professional and management knowledge, the new professional results into Hungary. They had previous experiences in R and D, and in practice, too. So they decided in the autumn of 1983 that there is no other way out than founding SUC.

2.2. Second Stage: Stabilization

SUC was created by three gmk-s (previously departments of three different organizations). These united in a cooperative 'SUC'. The only reason to

make a cooperative of the three gmk-s was the favourable tax conditions for it, and in order to form a cooperative min. 15 founders were needed according to the law. In 1984 a fourth group joined SUC. So SUC was made up of four independently functioning teams, the leaders of which had coordinatory talks with each other only if it was unavoidable.

With the fourth group a rapid and great change has begun for SUC. In 1984, at the time of a great 'Commodore fever' SUC decided to deal with PC-s. In 1985 the Commodore fever was over. The prices of PC dropped down, increasing the market potential. The first business deals of SUC were related to their old company connections. However, SUC turned very soon to a new fragment of the market: there were organizations with less money, but with a demand for higher quality. These organizations had no time to wait eighteen months for computers. SUC made softwares for such companies (accounting, wage-calculating, storing-ordering, etc.) and helped to acquire and install the computers.

Due to this market policy SUC had no more uncertainty. Then SUC moved from a 30 m² cellar to a rented large family house. It was paradoxical, but the widening market caused a great problem: there was no computer in Hungary, the import was a state monopoly helping only the big organizations. They had no other choice than to organize their private import network — which was illegal.

It became obvious, that on the Hungarian market — full of monopolies, various limitations — only a very modest liberalization gave so much freedom to the private sector which was enough for a speedy growth. But to achieve success, many factors were needed: professional competence, coping with market limitations and state bureaucracy, solving the inside conflicts, restructuring the intraorganizational power relations, changing the management.

2.3. Third Stage: Years of Running-in 1985-88

Besides the favourable market factor, to achieve success the appropriate organization of their own activities also was needed.

The most important feature of these early years was the non-organization-like activity. There was no hierarchy, no bureaucracy, no departmentalization, no work distribution at SUC. Everybody made every kind of work: computer selling, software making, financing and purchasing, repairing, carrying, transporting, filing, documenting, calculating, etc.

The greatest problem was the finding of computers and the whole configuration. The import channels (and the currency needed to import) were practically reachable only for the big companies near to power. The Min-

istry strongly resisted to any private claims of dollar. The only workable way was the private import.

In order to have their import stabilized, SUC employed a man with a good personal network at the export-import black market. Such activity was 'helped' by the governmental 'liberalization' from 1985, from when at the border customs the baggages have not so strictly gone through.

The second phase of liberalization was the so-called OKISZ-dollars (OKISZ: State governed centre of cooperatives). In the 1980ies great investments were put in the heavy industry yielding no great results at all. To compensate, and hush up this economical fiasco the government made concessions: heavy industry may sell its produced dollars (from export trade) on black market prices to cooperatives, via OKISZ. (Earlier every dollar had to be transferred to the National Bank.) This way a part of the profit was passed from the cooperatives to the heavy industry.

The third possible way was the barter business: goods for goods. This kind of trade was a little better tolerated for private sector; and went on much smoother when a state owned company was involved. SUC chose this way from 1985. It looked for such Hungarian companies the products of which were not saleable or only at very low price.

Such solutions were effective but archaic methods: to make business, to produce money, but to avoid any formal, bureaucratized organization. Ventures having voted on this in non-organization-like way remained small businesses.

The managers of the first three groups — maybe spontaneously — chose the other way. The first step was (forced by the environment) the stabilization of input. Thanks to a small liberalization there has been a Far-Eastern business bureau in Hungary. After realizing that the direct import from Taiwan and South Korea was maybe by 30-40% cheaper than from Western Europe, they turned to this bureau. Soon they also travelled to the Far East and started the direct import. This input stabilization strengthened as the currency resources changed from private to organized forms (barter, OKISZ).

The second step was to find a joint venture in Vienna. Through a 'chain of acquaintances' they got to a Hungarian man who inherited a factory in Austria. He was (formally) the foreigner. So, SUC had a trading company, factually a rented flat in Vienna, where it was able to play false the Hungarian foreign trade state monopoly. Some large Hungarian state companies having dollar could very easily buy anything from the Venture in Vienna a little cheaper (we name it SUC V in the followings). SUC V began to export computers even into Czechoslovakia and to the USSR.

SUC also had many problems with obtaining import licence.

At the end of 1987 government decided to take the assets of the cooperatives into state ownership. These measures shocked among others SUC, too. They decided to transform the venture into a shareholding company, involving foreign capital. By 1989 SUC set up the new form while not touching the old frames either. So at the same time SUC was made up of four gmk-s, four ltd-s, one cooperative and one share-holding company. This eclectic form caused some problems, but helped SUC to avoid taxpaying, using and playing with the facilities legally.

2.4. Fourth Stage: Reorganization, 1985-86

Reorganization was motivated by the technological change (trade) and by the rapid growth of turnover and profit.

The fourth group has begun the trade from the autumn of 1984. Since so much profit could be obtained of trading, the other three groups decided to take it up, too. This step changed the original independence of groups. The group began with strict coordination on configurations, offered conditions, terms, prices. The three groups decided to handle the turnover, expenses and profit of trade not separately but together as a whole. They divided the profit evenly between the three groups, independently of the individual achievements. This was the first step in the direction of organization-like functioning.

The fourth group said 'no' to coordination. The tension topped by the end of 1985 in connection with the Far Eastern relations.

The fourth group's interest lay in the West-German business connection. The 'hidden' interest of the rest of the Venture was not only to gain immediate profit for a while, but also to build up the stable environmental network, to increase the SUC's market share, etc. This organization-like interest motivated the three groups to make steps into the direction of unitedness, and cheaper input. The boss of the fourth group had no other choice than to leave SUC.

Some months later the four groups united the SUC's trade, employing a marketing man. A year later, in the second half of 1987 a trade department was built up. Trading needed maintenance. It was unavoidable to build up a service department. But the managers hated bureaucratization and feared of financial and other state controls. The management decided to found a service cooperative (SUC S). Due to missing law regulations on private ownership and property rights, the foundation was not successful: SUC S grew out of the 'mother's' control and soon became her rival. In 1989 SUC newly developed its own service.

Practically, in 1989 the basic elements of a formal, bureaucratized organization developed. For some years (1985 to 1988) the trade depart-

ment has developed horizontally. The bureau in Czechoslovakia and USSR and in Hungarian country towns worked parallelly, in cooperation with the headquarters. But in 1987-88 it became obvious, that this cooperation cannot assure the optimal use of stores. A computer was missing at one store, but was in surplus at the other. They needed hierarchically organized management and information system. This led to the wilful, conscious hierarchization of the trade department, at the beginning of 1988.

2.5. Fifth Stage: Changes in the Management and Ownership

The new technology (trade) resulted in great changes in the management and ownership rights. At the early years the management involved the four bosses of the groups. When the new department (trade) was born, the new management had five men: the 'hard core', the bosses of the three groups, the managers of the fourth group and one of the trade. The core made the most important decisions, business travels, dealt with old customers.

In 1983 the founders had no possibilities — because of regulation — to ensure their property rights. This led to permanent changes in the owners' rights. You can see two lines of tension: between non-managers and managers; and between non-managing founders and new-comers. This latter comes from the different profitability of the founders (software-makers) and new-comers (traders).

Between the managers and founders, the most important differences were in the management knowledge and the profitability of the jobs.

At the beginning the difference between the managers and the rest was slight. One organized and controlled software making, the other did the software. The profit was based on the same thing: software. But trading was in the hands of the traders and managers, pushed the software makers to the periphery.

This segregation moved along with the great change in the content of management. In 1983-84 management was: management of profession. The main function of the management was to sell the whole software-making capacity. From 1984 a new function came to the surface: the management of profit. What to do with the 'surplus' money? They bought a ground plot, in order to build a business centre. The managers began to deal with the interest rate conditions, handling credits and investments. They entered the lessing market. The stabilization of inputs was the preliminary to the new phase: the management of organization. Getting nearer to the organization-like structure and functioning, the content of management widened with budgeting, motivating (incentive system), controlling, organizing service, coordinating, financing, etc. So between the managers'

job, information, skill and the software makers' ones an unbridgeable gap opened up.

A third tendency was the permanently decreasing status difference between the founders and the new-comers. The first slight change in the owner — founder status happened in 1986, when the fourth group introduced a productivity-oriented incentive system to replace equality. In 1989's summer the last group introduced this incentive system, too. In 1986 (the first year when the number of the new-comers run over the founders) the new incentive system showed that the ownership mind shifted into the direction of employee mind among the founders.

With this decision in 1988, the last main element of the division-by-group also disappeared. It was succeeded by the division by hierarchy, work, functions, etc.

Some years later everything turned upside down, and this drastical change was realized and legalized in their shareholding company.

This completed the push-back of the owner — founders' rights. The winners of the power game were the managers and some of the traders.

2.6. Sixth Phase: Future — Bureaucratization, Diversification

This case study told the success of a private business venture. In 1980 some men decided to make more money in their part-time venture. After conflicting with their company, they decided to found a cooperative. Three groups made up SUC. The later comers' fourth group has begun dealing with trade. The unbelievable profit of trade inspired the venture to step on a non-planned way. First the leader of the fourth group had no other choice than to leave SUC. Instead of the permanently asserted independence of the groups, they became united step by step. The division by group changed into division by work, function. The managers and key-profit-making-men became owners, the owner — founders became similar to new-comers. The venture changed into a bureaucratic organization.

In 1988 SUC built up a four-level office block. Parallely with the shareholding company the hierarchy and the departments were built up, too. New faces appeared in the new building and departments.

Thus new branches, and activities have been developed. The founders have no competence or any knowledge to these activities. Accounting and tax advising, fax, copy machines, telephone networks, management calculators, cash-registers, etc. The general manager said in 1989: 'The organization reached its optimal size.' It seems to me that this claim became outdated by the end of 1990.