When the Past Meets the Present: Economic and Business Development of Hungary and Russia from Communism to Market

Zinaida Karapetyan
University of Missouri-St. Louis, zk@zeeshome.com

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WHEN THE PAST MEETS THE PRESENT: ECONOMIC AND BUSINESS DEVELOPMENT OF HUNGARY AND RUSSIA FROM COMMUNISM TO MARKET

by

ZINAIDA KARAPETYAN
M.A., Political Science, University of Missouri-St. Louis, 2001
B.S., Public Administration, University of Missouri-St. Louis, 1997

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Advisory Committee

Kenneth P. Thomas, Ph.D.
Chairperson
Carol Kohfeld, Ph.D.
Co-chair
David A. Ricks, Ph.D.
Lyman Tower Sargent, Ph.D.
Andrew Sobel, Ph.D.
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CHAPTER I
INTRODUCTION

For a long time, studies of communism were limited to the analysis of the Soviet Union and its economic and political system. In the late 1960s first works of comparative nature started to appear, demonstrating that there were different types of communism and that each communist country followed its own path of development. When communism collapsed at the end of the 1980s – beginning of the 1990s, this pattern repeated itself. The transition process was understood in terms of transforming the general common features of communism – changing the ownership structure, lessening state control, liberalizing markets and prices, creating multi-party political systems, etc., and the discussions, stressing the differences in the communist systems in all those countries on the verge of the transition, faded away. As the reform process progressed, though, questions arose as to why some former communist countries were having more luck with adopting the new market institutions than others. Eventually the interest in the influence of country-specific differences on the process of economic and political development reappeared.

This work focuses on such differences in the development of Hungary and Russia. It demonstrates how different their paths of economic development were to break the myth of a ‘uniform’ communist economic system established in the region. It analyzes where these different paths brought the two countries before their communist regimes collapsed and whether we can trace the presence of these differences in the current
developments. The framework of the analysis is discussed in greater detail at the end of this chapter.

A number of comments are in order before I proceed. I take the year 1990, when the first multi-party parliament in Hungary was elected, as the year of the collapse of the communist regime in that country. For Russia it is the year 1991, when Boris Yeltsin was elected President of Russia and the Soviet Union dissolved. I refer to the governments before 1990 in Hungary and 1991 in Russia and their respective regimes as ‘communist’ for the sake of simplicity, even though theoretically one could render it inaccurate. Likewise, the leading party of the period in Hungary is referred to as ‘the Hungarian communist party,’ even though its official name was the Hungarian Socialist Workers’ Party. The period after 1990 in Hungary and 1991 in Russia is referred to as the period of restructuring or the period of transition to the market, even though one could argue that the transition to the market in Hungary had begun long before then. The historical analysis of Russia is presented through the historical analysis of the Soviet Union rather than of the Russian Soviet Socialist Republic, because the Russian Republic was the dominant power and decision-maker in the Soviet Union. The case would have been different if the study focused on one of the other fifteen republics, because they had their own specific features of development. Finally, the term ‘top manager’ or sometimes just ‘manager’ and ‘director’ are used interchangeably throughout the analysis to refer to the person with the final decision-making authority at the enterprise level.

I start this chapter with a description of the traditional Soviet economic model and a traditional Soviet enterprise to acquaint the reader with the subject of the debate on transition. These two were at the core of the restructuring process. In subsequent chapters
it will be demonstrated that these two traditional ‘models’ were not as traditional for Hungary, as one was led to believe when the transition process started. I then proceed with the discussion of the economic theories that have shaped the transition process in Eastern Europe and a brief description of the economic transition in Hungary and Russia after the collapse of communism. I then look at the alternative explanations for development and present the framework of the analysis. The final section summarizes the structure of the thesis overall.

The Traditional Soviet Economic Model

The traditional Soviet economic model operated under a fully state regulated centrally planned economy. The operation of the economy revolved around the fulfillment of the five-year plan. The highest party authorities set the objectives to be attained every five years and the national planning organ translated those objectives into the plan. The national plan included the aggregate targets for the whole country, which were then broken down by ministries and lower level departments and agencies into specific targets and directions, including resource allocations, at the branch and enterprise level for every economic activity. The enterprises were prescribed what kind of product they were to produce and what quantity. The plan figures were likewise desegregated into yearly and quarterly targets.

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A hierarchical government structure was set up to regulate, monitor, and implement the plan. At the top of the hierarchy were the cabinet of ministers and an array of central agencies (for example, Gosplan in the USSR or the National Planning Office in Hungary). Ministries constituted the next level of the hierarchy that were directly overseeing enterprises. Each ministry was divided into ‘chief administrations’ (glavks) each responsible for a different economic activity.

In the Soviet Union there were three types of ministries - all-union ministries that supervised key industrial branches with enterprises throughout the Soviet Union; union-republic ministries that supervised enterprises that fell under the dual subordination; and republic ministries that supervised enterprises producing for local markets. The organizational structure of all three types was very similar.

At the bottom of the hierarchy were the enterprises themselves that were actually responsible for fulfilling the plan’s targets. From 1973 on a new entity, an ‘industrial association’ was gradually introduced that was to take on the functions and gradually replace the chief administrations (glavks).

Since the whole objective of the society was to fulfill the plan, any uncertainty that could disrupt its implementation had to be eliminated. At the national level this was carried through by completely eradicating the market and free prices. The fulfillment of the planned targets was believed to only be possible if the supply of materials and resources could be guaranteed and, thus, controlled, which would be impossible to accomplish through the market mechanism with its free flow of goods and resources. Likewise, free prices could disrupt the supply of materials and resources because of their

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Karapetyan, Zinaida, 2005, UMSL, p. 5

unpredictable nature. The plan, demanding certain production figures from enterprises in exchange had to provide the enterprises with adequate supply of materials, which was thus accomplished through the system of state material distribution at fixed prices. The prices, then, became just a tool for bookkeeping.

The producer prices (referred to as ‘the industrial wholesale prices’ in the USSR) were determined on the basis of an average branch cost of production (including wages, depreciation, insurance, and some other costs) plus a profit markup. They tended to remain unchanged for a long time. In the case of the Soviet Union major changes had taken place only with the price reforms of 1929, 1936, 1949, 1955, 1966-67, with some minor adjustments in the 1970s, which meant they rarely reflected the real cost of production.

Roughly speaking the producer price plus the turnover tax constituted the retail price. The starting point here, though, was not the producer price, but the centrally determined retail price calculated to ‘clear the market.’ The difference between the clearing price and the producer price then constituted the turnover tax. If the industrial wholesale price was greater than the clearing price, no turnover tax was added and subsidies were given to compensate for the difference. In other words, producer prices and consumer prices were not related to each other.

The only truly market determined prices in the Soviet Union were the prices that collective farmers could charge for their produce on collective-farm markets (either selling produce from their private plots or the produce of the collective farm that remained in their hands after the state requirements had been met).

\[ \text{To make sure that the product would be sold.} \]
The economy had to be isolated from the effects of the international markets and their free prices as well. All foreign trade transactions were made through the All-Union Import-Export Associations subordinated to the Ministry of Foreign Trade and organized by product (books, autos, etc.) These organizations served the role of a middleman between domestic and foreign enterprises, only domestic enterprises did not have any say in the transaction. The domestic producer was simply authorized to produce a certain item for export, which was then purchased by a respective Association at the domestic price and sold to the foreign enterprise at the world market price. By the same token, the Association bought authorized products on the world market at the world market price and then sold it to the local producer at the local price. The state either expropriated the extra profit made from such dealings or subsidized the price difference.

The Council for Mutual Economic Assistance (Comecon) was set up to regulate the trade between the countries of the Soviet bloc and, consequently, make them as little dependent on the trade with the capitalist countries as possible. Only goods not available within the Comecon market were supposed to be bought outside.

The Soviet banking system was dominated by a single monopoly bank, the State Bank (Gosbank); there were two other banks, the Investment Bank and the Foreign Trade Bank, but as their names suggest, they had specific functions and their duties did not intersect with those of the State Bank. The State Bank carried out all the functions of central and commercial banking. All financial flows at the enterprise level were carried out through accounts at the State Bank: short-term credits for working capital, receipts, profits, wage fund, etc.; enterprises were not allowed to deal in cash.
The structure of the economy was as an inverse pyramid with large enterprises and production associations composing the largest proportion. State and collective ownership prevailed; private ownership was limited to personal possessions.

**Industrial Enterprise in the Traditional Soviet Model**

A typical Soviet enterprise was headed by a director presiding over a professional management staff: a deputy director, chief engineer, chief accountant, chief economist, and chief technologist. The director himself (rarely herself) normally had an engineering degree.

The work of the enterprise revolved around the annual *techpromfinplan* (technical industrial financial plan) providing directives from the Central Planning Organ, the responsible ministry, and the production association. Generally speaking, the plan provided what inputs the enterprise was to receive and what outputs it was to produce. More specifically, on the input side, the plan specified what material, financial, and technical resources the enterprise would receive, how the enterprise was to utilize available plant and equipment resources, labor and wages, and the rate of labor productivity. On the output side it prescribed how much of the product the enterprise was to produce (specified in quantity or rubles), what kind of product, where and when the enterprise was to deliver the product, the enterprise’s profits, profitability rates, and payments to the state budget.

The *techpromfinplan* was developed as a result of the following process: enterprises received five-year aggregate targets from the ministry for the next five-year plan, drew up their five year plan taking their capacity and all the other factors into
consideration, and submitted them back to the ministry for revisions and final approval.
The process was no different if the enterprise was a part of an association, with the
exception that the enterprise submitted its plan to the association and then the association
would provide an aggregate plan for all the enterprises to the ministry.

Since there were penalties for under-fulfillment of the plan targets enterprises
tried to underestimate their capacity in the process of plan development to receive targets
that they could actually fulfill. What evolved was a system of extensive bargaining, “as
the central authorities strive for maximal performance with threats of punishment while
subordinates seek ‘easier’ tasks by pleading incapacity.”3 Since the branch ministries and
other local regulatory authorities were responsible to their superiors for the fulfillment of
the plan targets at the enterprise level, it was in their interest as well that the enterprises
received more or less realistic assignments. There was little or rather almost no incentive
for enterprises to over-fulfill the plan.

This planning model, unfortunately, only worked well on paper. In actuality, the
final plans were often based on distorted information and were unrealistic to fulfill:

Due to the size and complexity of the planning problem, the limited information
and computational capability of the central authorities, the fact that existing
information is distorted by subordinates seeking easier assignments, the extreme
time pressure under which they are operating, and the continually changing
economic situation, detailed operational plans are rarely consistent and central plans
are only so at the most aggregate level. (Ericson 1991, 17)

This inconsistency was further exacerbated by the unfeasibility of its targets due to the
policy of ‘taut’ planning pursued by the government – “assigning ambitious targets and
limiting the resources provided.”4 These conditions made the fulfillment of the plan at the

enterprise level almost impossible. As a result enterprises or rather their directors had to develop certain strategic behaviors to attain or sometimes pretend to have attained their final goal of plan fulfillment.\(^5\)

Since the targets assigned to enterprises normally could not be simultaneously achieved, the director had to make a decision about which plan indicators to fulfill to satisfy the central authorities. Gregory and Stuart point that managers used ‘plan directives, the bonus system, informal and formal communications from the party, and simple intuition’\(^6\) to figure out the preferences of the planning authorities. Despite the inclusion of and reinforced focus on profit and profitability from the 1960s, the main focus throughout the Soviet times remained on output:

> Historically, the priority system has consistently signaled the priority of output performance over other plan targets. Thus, the priority system directs them to emphasize output performance over other plan targets, with the resulting neglect of costs, innovations, quality, and so on. Second, the priority system signals to managers the relative importance of the various enterprises with whom they conduct business. If managers find themselves unable to meet delivery obligations to both enterprises X and Y, they must rely on their priority awareness to make their choice. (Gregory and Stuart 1986, 220)

Clearly, then, what resulted was not only neglect for quality, technology, and other indicators, but also an inefficient system of output allocation with regular delays and even failures to deliver products to the customer, whose production process was then obstructed as well.

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\(^4\) Ibid., 17.

\(^5\) Failure to fulfill the plan could result either in the loss of bonuses or the loss of the job for the director, which would entail a loss of much more than just employment and the salary. The position of a director held quite a large number of perks for its holder. For example, besides the monetary rewards, which constituted a substantial portion of the director’s income and were much higher for the position of a director than anyone else at the enterprise, there was a myriad of non-monetary rewards that in a nutshell provided the director access to otherwise limited and non-available resources such as good living quarters, an automobile, etc.
Thus, the ‘priority system’ was not sufficient in itself to control for the problems of the plan mechanism, in particular, for the irregularities in availability of the inputs. The managers then resorted to other strategies. One of these was to hoard resources (including labor) - the manager would try to stockpile extra materials and employ more people than would normally be necessary, to be ready for any unexpected changes or irregularities in the plan. Storming – the production of a large portion of plan output at the last minute, had become the usual production style as well.

Another strategy to control for irregularities with inputs was to use services of a middleman called a *tolkach* (an expeditor, but the literal translation is a ‘pusher’). The *tolkach* was someone, not necessarily employed by the enterprise, who had the ability to procure necessary materials for the production using connections and all other means possible.

All this naturally demonstrates that the Soviet manager was resistant to innovation in the production process, because it would only add more uncertainty to the fulfillment of the plan.

According to Gregory and Stuart the management style of the Soviet enterprises was characterized by three main features: centralism, verticalism, and one-man management (*edinonachalie*).\(^6\) Centralism referred to the idea of democratic centralism, according to which democratic discussion was encouraged during the stage of deliberation on a particular issue, but the final decision was made at the center. Verticalism referred to the vertical organization of the economy and the top-down flow of directives from Ministries to enterprise management. The one-man management placed

the responsibility of the enterprise functioning on the enterprise manager;

“edinonachalie’ means that the manager has the authority to direct the labor and capital resources of the enterprise (within the constraints imposed by the plan). The manager’s staff is obliged to obey the manager’s directives, according to Soviet law.”

Finally, because employment was a Constitutional right, according to which every person was guaranteed a job, the common Western perception of the Soviet industrial worker was ‘lousy and lazy’ - he/she did not care about the quality of his/her work and did not work hard.

Two Approaches to Transition

The Soviet type economic model as described above had numerous shortcomings - the persistence of the economy of shortage, low technological innovations, poor quality of the products, just to name a few, that proved the mechanism to be inefficient to generate consistent economic development and growth. To correct for all the problems that the Soviet type economy endured, the transition to a full-fledged market economy was advised to the ailing economies of the former Soviet bloc in the 1990s. With help from Western specialists the governments in the region developed plans for replacing the old institutional framework of command economy with market institutions. The two main economic schools that dominated the discourse on the strategies of transition in Eastern Europe were the classical/neoclassical school and institutionalists.

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8 Ibid.
Principles of classical/neoclassical economics are based on the ideas developed by Adam Smith who understood economic growth as dependent on capital accumulation and culture that promoted natural liberties. According to Smith free trade was an essential part of that system, because it is in human nature ‘to truck, barter, and exchange one thing for another.’ On the basis of these principles neoclassical economists promoted less economic control or government intervention and maximum liberalization of finance and trade.

A standard package of suggestions from the classical/neoclassical economists included: liberalization of markets, abolition of barriers to foreign direct investments, abolition of government regulations restricting competition, privatization of state enterprises, reduction of government budget deficit, market determination of interest rates, replacement of the quantitative restrictions on import with tariffs, establishment of the legal system that secures property rights. In other words, their policy was ‘withdrawing government intervention in favor of the rationalization of an economy

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9 I use the terms ‘classical economics’ and ‘neoclassical economics’ interchangeably, because I am not interested in the differences between the two approaches, but rather in the core ideas that they both share.


12 Peet, *Theories of Development*, 49.

through disciplining by the market and by self-interested individuals efficiently choosing between alternatives in the allocation of resources.”¹⁴

Institutional economics partly shares classical/neoclassical assumptions, but diverges from them in its stress on the importance of other institutions besides the market. ‘Many institutional economists share the dominant notion of economics as the study of the efficient allocation of resources, but diverge on whether the market is the economy’s guiding mechanism. The real allocating mechanism, they say, is the structure of the society, which organizes markets as well as other institutions.’¹⁵ The new institutional economists view institutional structures, understood as the web of formal and informal rules, as the main determinant of development. To explain the state of development at any given time they introduced a concept of ‘path dependency,’ which maintained that institutions are created on the basis of institutional structures, and, therefore, the values and traditions, of the past.¹⁶ Hence, it is difficult to radically alter any existing economic arrangement, because it hinges not only upon a web of laws and formal rules, but also upon informal codes of behavior and cultures, which are not amenable to change. The process of institutional change, therefore, becomes highly dependent upon the successful transformation of those informal rules and codes of behavior as well.

In Eastern Europe the differences in the two schools manifested themselves in two different approaches – which, for the sake of simplicity, will be referred to as gradualism and ‘big bang’. The first approach was advocated by institutionalists and urged that

¹⁴ Peet, *Theories of Development*, 52.

¹⁵ Ibid., 58.
transformation proceeded gradually with careful planning of the sequence and timing of reforms. The second approach, backed by the classical/neoclassical school, advocated a fast installation of the new market institutions without concern for the sequence or timing of changes. Hungary adopted the first approach and Russia the second.

The basic differences between the two approaches were well summarized by János Kornai as follows:

Supporters of strategy A [gradualism] envisioned the private sector’s share of output growing as new private firms appeared and the state sector shrank with the sale or liquidation of state-owned companies. They emphasized the creation of favorable conditions for bottom-up development of the private sector: encouraging the launch of new firms by eliminating the barriers to entry, guaranteeing the security of private ownership, enforcing private contracts, and applying affirmative action – cautiously – for example, tough tax and credit policies.

Strategy A called for the privatization of state-owned companies through the sale (at fair prices) of state assets, preferably to outsiders able to invest in the companies. State property would not be given away – insiders would also have to pay a fair price. After sale, ownership would be concentrated in the hands of a dominant owner.

Strategy A also stressed the importance of hard budget constraints and consistent enforcement of bankruptcy and accounting laws. Hard budget constraints introduce a process of natural selection: profitable companies are bought by investors while chronic loss makers are forced into bankruptcy and liquidation.

In contrast, strategy B’s emphasis was on the rapid elimination of state ownership. It called for privatization primarily through some form of giveaway – for example, voucher schemes. The goals were dispersed ownership – the equal distribution to all citizens of state assets – and the development of ‘people’s capitalism.’ (Kornai 2000, 12)

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17 As opposed to ‘soft budget constraints’ that were the practice during the communist regime. The term ‘soft budget constraint’ was introduced by János Kornai himself and refers to the situation when enterprises’ expenditures are not bound by their income, because the state readily covers the excess expenditures (See János Kornai, *Vision and Reality, Market and State: Contradictions and Dilemmas Revisited* (New York: Routledge, 1990), 20).
Transformation of the Russian Economy in the 1990s

The first Russian economic reform program came into effect on January 2 of 1992. It was a big bang strategy calling for immediate price and trade liberalization along with a decrease in state spending and an increase in control of the monetary supply. Mass privatization was to follow as soon as liberalization and stabilization were achieved. The government believed that price liberalization would not cause high inflation, because certain measures for price monitoring would be put in place; that the market mechanism would take over and the currency would quickly stabilize; and that ‘within a year Russia would have a budget without deficit and a system of maximum social protection for its population.’

Contrary to these expectations the country started sliding into a deep crisis as soon as prices were liberalized in the beginning of 1992: the first quarter of 1992 saw an 800-900 percent increase in prices for most goods and services, and they continued to rise on and off afterwards; production started to fall; by March 1992 there was a shortage of money, which meant that people were not paid their wages, salaries, and pensions on time; many enterprises had to switch to in-kind payments of wages to their employees; people’s savings held in the state bank lost their value; by the summer and fall of 1992 the government was forced to cut financing of health, education, and other social programs.

The first privatization program introduced in the summer of 1992 turned into a big disaster as well. In line with the general purpose of privatization the Russian

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19 Ibid., 20-23.
government hoped to transfer state enterprises onto the shoulders of private entrepreneurs that would be financially interested in making them efficient and profitable. A number of privatization strategies were designed, the most notorious of which was voucher privatization. During the design stage of this privatization program at the end of 1991 the plan was to transfer state property to all citizens of the country by creating personal accounts for each citizen and depositing equal amounts of money that could only be used for the purpose of privatization. The amount to be given away was calculated by dividing the value of Russian productive capacity by the number of people. In the end, no accounts were created and the money was distributed to people in the form of vouchers; ‘these were nondescript pieces of paper, not backed by any government guarantee.’

They were anonymous too, which meant there was no way of telling whether the voucher reached its designator, and, if not, where it went. Vouchers could be used to buy shares of enterprises that were listed by the government for privatization.

There were many problems with this privatization scheme: the value of the voucher was set before the inflation process started, but as the inflation devalued the voucher no revaluation of the value of the voucher took place; the base values of the state enterprises were set often at ‘one thousandth’ of their real value, which meant the country’s assets were literally given away instead of being sold off; people that bought up vouchers cheaply and used them to buy state enterprises at ridiculously low values, did not have the millions of dollars necessary to revitalize the enterprises, which, in the end, meant that no changes at the production level occurred; the regular Russian citizen had no idea what the purpose of the voucher was and what privatization meant, and

\[20\] Ibid., 90.
considering the critical economic situation many either simply sold their vouchers for cash for much less than their real value or did not do anything with them at all.\textsuperscript{21} Out of 148 million vouchers that the government thought would have been used by 1993, completing the voucher privatization stage, only 36 million were used.\textsuperscript{22} “The management of an enterprise did not obtain any real capital as the result of privatization...The government...gained no economic benefit.”\textsuperscript{23}

Another form of privatization was the sale of state property of the service industry. In some cases it did result in improvement of the services, but mostly with their re-orientation to serve the narrow well-to-do strata of the society.

Before large and medium size enterprises could be privatized they had to be transformed into joint-stock companies. The workers of the companies had a number of options for transforming enterprises. The first option gave the employees (the worker collective) 25\% of the shares free of charge and another 10\% at reduced cost, but they did not obtain control over the new enterprise. The second variant gave the worker collective 51\% of the shares and a real control over the management of the enterprise. Finally, the third variant provided for a free sale of the enterprise at a market price. The second variant was the most popular, because it provided the worker collectives with real powers. At the same time it was an option that was the least likely to bring the necessary innovation and changes in the life of the enterprise:

It was obvious that workers would not be interested in allocating profits to pay dividends to incidental shareholders instead of increasing their own wages. On the other hand, this variant of privatization made it difficult to carry out

\begin{itemize}
  \item \textsuperscript{21} Ibid., 90-93.
  \item \textsuperscript{22} Ibid., 94.
  \item \textsuperscript{23} Ibid.
\end{itemize}
reorganization and modernization, especially if laying off workers was involved. In other words, productivity of labor would be raised very slowly. Few people were interested in buying shares in such enterprises. Not surprisingly the formation of such joint stock companies did not result in greater efficiency of production and in many cases made the operation of plants and factories more difficult. (Medvedev 2000, 92)

Only two percent of enterprises were privatized according to the first variant. The companies that were to be sold at free prices for the most part had to be sold at their low base value, because there was no capital in private or institutional hands to bid for higher prices. Most of them were bought with vouchers acquired from all over the country.

The next wave of privatization was initiated in 1994 when thousands of enterprises were put up for sale through auctions for real money, and not vouchers, and then in 1995 when large blocks of shares of enterprises were auctioned off (instead of the whole enterprise or its individual shares). Much has been written about the abuses of the process during which even profit-making enterprises were sold off for a fraction of their cost or former top-secret technologically advanced government enterprises were acquired by foreigners through questionable deals. The main result of the process was the enrichment of private individuals and not the state coffers that remained as empty as they were in the beginning.

According to Philip Hanson the Russian transition was also failing in macroeconomic stabilization and the building of market institutions. The macro-stabilization was compromised by persistent budget deficit and large government spending not matching its revenues. The establishment of the market mechanism was

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24 Ibid., 146-153.

undermined by high barriers to both market entry and exit: “licensing and regulation by local and regional authorities have been comparatively oppressive and corrupt....Barriers to market exit have loomed at least as large as those to market entry. Perhaps the biggest single failure in Russian implementation of market reforms has been the maintenance of soft budget constraints on large state and ex-state enterprises.”

At the end, Yeltsin’s attempts to establish a market economy resulted in the creation of what Michael Elman called a mutant economic system. In place of an efficient state apparatus, which was the hope of democratic transformation, a corrupt and parasitic one developed with officials treating their positions as a chance to enrich their private foreign bank accounts rather than perform their duty. The economy became more primitive and the importance of the division of labor in the society decreased, which, among other things, could be seen in a dramatic increase in the importance of the subsistence sector in agriculture (private plots, gardens, allotments, *dachas*, etc). The importance of barter transactions in industry and agriculture increased as well, by March of 1998 accounting for 50% of industrial sales and almost entirely replacing monetary transactions in agriculture. Wages, pensions, and other payments were rarely paid on time often reaching a delay of a few months (and not only in the state sector). The economy became completely saturated with crime ranging from racketeering to assassination of ‘competition’; the criminal, political, and business worlds became highly

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26 Ibid., 1142-1143.


28 *A dacha* is a place in the country that people normally use to grow fruit and vegetables for personal consumption or sale.
inter-wound with even the national legislature housing large-scale criminals and ‘protecting’ them under legislative immunity. Reciprocity, a pre-capitalist form of economic relations, remained very important. Ellman, nevertheless, points out that it was a mutant, but market economy, with a relative abundance of goods and services and absence of queues. It was an economy that responded to the ruble crisis in 1998\textsuperscript{30} the way that a market regulated economy is expected to respond - with the decrease in imports and increase in exports and in import-substitution forms of production.\textsuperscript{31}

This was the country that the current Russian President Vladimir Putin inherited from Boris Yeltsin. Remarkably enough, just within a few years of his ‘reign’ President Putin managed to move the country’s economy in the positive direction: the rate of inflation was slowed down, the economy started to grow, the state budget was becoming balanced, ‘private ownership of land has been reintroduced, financial markets revamped, rules covering customs simplified to cut down on corruption and a start made on the banking sector, natural monopolies and judicial reform.’\textsuperscript{32} A plan for a comprehensive reform of almost every aspect of life has been introduced. The President has made it clear that the ‘stealing’ of state property would be put to an end and that enterprise tax discipline would be better enforced. Various measures have been introduced to remove the market entry obstacles to new enterprises: ‘the economic development ministry has pushed through laws to reduce taxes on small firms, speed up and simplify business registration procedures, cut burdensome state inspections, and trim the number of

\textsuperscript{29} Ellman, “The Russian Economy,” 1418-1419.

\textsuperscript{30} In August of 1998 the ruble devalued from under 10 rubles to $1 to 20-25 rubles to $1.

\textsuperscript{31} Ellman, “The Russian Economy,” 1419-1420.
licenses and permits companies require to function.” The problems are still numerous, but the overall prognosis is much more optimistic than it was under Yeltsin. The main outcome, though, is that the country is still largely in the process of transition 15 years after it began.

**Transformation of the Hungarian Economy in the 1990s**

The transition in Hungary presents an absolutely different case. Not only did the strategy differ, but the outcome was much more successful and the country had managed to turn its economic orientation 180 degrees by becoming a member of the European Union in May of 2004. This provides a drastic contrast with Russia’s on-going attempts to create a friendly environment for private businesses and reorient its economy to the market.

The first liberalization measures in Hungary were actually introduced under the old Communist government and included liberalization of foreign trade, prices, wages, transactions in foreign currency, and wholesale markets in factors of production.

The privatization process began in 1990 with selling off small shops with less than 10 employees and restaurants, hotels, and service outlets with less than 16 employees, which was normally referred to as pre-privatization, in which only

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Hungarians could participate.\textsuperscript{35} The process was not much of a success, because (1) it did not include the transfer of rights to tangible assets - buildings and land, but only to the furniture, inventory, and rental rights, which created an image that the government was ‘selling the air’; (2) banks were not eager to provide credit for such purchases; and (3) the conditions for starting a business from scratch were often more attractive than acquiring one through the process of pre-privatization.\textsuperscript{36} As a result, only 2,120 small businesses out of 10,000 eligible were privatized in the process of pre-privatization.\textsuperscript{37}

The first privatization program of 20 large enterprises based on the centrally directed privatization process, in which the state assumed full control, was likewise a failure. By the spring of 1991 not a single one of the 20 enterprises had been bought.\textsuperscript{38} The State Privatization Agency admitted that the failure of the program lied in its neglect of company managers, who actively resisted the changes imposed from above. “By manipulating inventory and production figures, dragging their feet, and scaring off potential investors who were not to their liking, managers won the cat-and-mouse game against the agency.”\textsuperscript{39}

In the summer of 1991, having learnt the lesson, the government introduced a new privatization program - self-privatization, according to which enterprises could start the privatization process with the assistance of small private agencies licensed by the State


\textsuperscript{36} Ibid., 195.

\textsuperscript{37} Ibid.

\textsuperscript{38} Ibid., 196.

\textsuperscript{39} Ibid.
Property Agency. Enterprise managers were given complete control in finding outside investors and the sale of enterprises was conducted entirely by the private agencies without interference from the state. This program was a great success.

In 1992, an employee-share ownership privatization program was introduced, and from 1993 forward enterprises could be leased with an option to buy after six to eight years. Government loans were made more available for privatization needs as the process progressed. Along with the privatization program the government introduced measures to decrease its subsidies and investments.

The policies of the first post-communist government, headed by the Hungarian Democratic Forum, nevertheless brought recession: the current account and the budget deficits were mounting. The new government under the leadership of the Hungarian Socialist Party was elected in 1994, introducing a new radical program in 1995 known as the Bokros package (named after the current finance minister) to bring the deficit down, restore the balance of trade, and eventually improve the growth rate. The main principles of the program were reduction in government spending, increase in taxes, devaluation of the currency, and instituting a crawling-peg exchange rate. The new government also revitalized the privatization process that slowed down in 1994 this time selling off a significant portion of the state assets to foreign investors. The new economic program largely achieved its goals: ‘Hungary’s growth rate accelerated, inflation moderated, the

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40 Ibid., 197.


42 Ibid.
trade balance improved (through the much faster expansion of exports than imports), the current account also improved, and foreign debt reduced.\textsuperscript{43}

By 1998 leading economic researchers announced that ‘the foundation of capitalism had been laid in Hungary.’\textsuperscript{44} János Kornai concluded that the transition to capitalism in Hungary was achieved according to the following three criteria – the monopoly power of the Communist Party had been abolished; private ownership became dominant in general and in its contribution to GDP in particular; and the market coordination of economic activities supplemented by other mechanisms replaced the central coordination mechanism.\textsuperscript{45}

The end of the transition process was manifested by the beginning of negotiations for membership in the European Union in 1998, which marked a new stage in Hungarian development – the stage of convergence of the Hungarian economic and political system with laws and regulations of the European Union. The culmination of that stage was the Hungarian people’s approval of joining the Union in May of 2004.

**Cultural Approach to Development**

“The Western European economies share a common core of capitalist institutions. It is that common core that should be the aim of the Eastern European reforms. The finer points of choosing between different sub-models…can be put off until later, once the core

\textsuperscript{43} Ibid., 185.


institutions are firmly in place.”46 This was the main premise behind all the reform proposals drafted by Western ‘experts’, which was supported by the idea that once this core of capitalist institutions was established, people would ‘naturally’ take advantage of the opportunities provided by the new institutions. In the beginning, there was little discussion of a possibility that these proposals failed to account for something that could create obstacles to their realization. Eventually, as the transition process unfolded itself it became obvious that its success greatly varied across the region with some countries being more successful than others. It also became obvious that the original proposals did lack something that was apparently creating obstacles.

The reform designers mostly blamed the failures on the flaws in the implementation process, not the strategies themselves. Others have been trying to understand what could have been missing from the beginning that made those strategies at times obsolete. One explanation is offered by the cultural paradigm – there was a disagreement between cultural values and the strategies and goals of transition.

The idea of the importance of culture in development is not new. Max Weber was the first to bring attention to it by asserting that values and ideas could influence the process of economic change.47 He challenged the assumption of social action as based on predictable self-interest that derives its social knowledge from empirically verifiable information – the premise that modern economics is based on.48 He believed that there


48 Ibid.
was no pre-determined pattern for social change and that the path of social development was a matter of probability and chance. 49 Each society according to Weber is at a unique stage of development at any given time that cannot be predictably foreseen.50

Almond and Verba drew attention to the importance of political culture for understanding development. They defined political culture as a system of ‘specifically political orientations – attitudes toward the political system and its various parts, and attitudes toward the role of the self in the system...It is a set of orientations toward a special set of social objects and processes.” 51 Political culture generates political structure and behavior and, also, is a product of political structure and behavior. 52 “Beliefs, feelings, and values significantly influence political behavior...and ...are the product of socialization experiences.” 53

There are numerous definitions of culture. Adler identified a number of points that seem to be most commonly agreed upon: culture is something that is shared by most members of the group, that is being passed from generation to generation, and that influences behavior.54 Values are what is shared by the group within the same culture. “Individuals express culture and its normative qualities through the values that they hold

49 Ibid.
50 Ibid.
53 Ibid.
about life and the world around them. These values in turn affect their attitudes about the form of behavior considered most appropriate and effective in any given situation.\(^{55}\)

Values can be defined as either consciously or unconsciously held general assumptions about what is right and wrong, and what is preferable;\(^{56}\) they are “a broad tendency to prefer certain states of affairs over others.”\(^{57}\) Attitudes express values and predispose people to act in a certain manner.\(^{58}\)

Numerous studies have been conducted to demonstrate the persistence of culture through time. In the 1970s an analysis of the political culture of the communist states revealed that the results of political change after communist takeover were consistent with the countries’ previous political experience and political culture:

The Hungarians seem to have settled, faute de mieux, for a system in which parliament, the courts and the press have much the same ambiguous but not ineffective role as they had before the Second World War. The Poles have used their traditional alternation of adaptation and insurrection to limit the right and responsibilities of government to a level not dissimilar to that which Polish governments enjoyed between 1919 and 1939. The Yugoslav system seems to satisfy very well the political expectations of a society in conditions in which one nationality, the Serbs, suffers discredit from this association. The caudillo element in Cuban socialism is obvious, and in this respect Cuban government is probably very much what the Cubans expect good government to be. In China there has as yet been no settlement of a modus vivendi between the old and the new, but the issues involved could well be expressed, as far as values are concerned, entirely in the language of the traditional political culture – and frequently are, even by the great iconoclast Mao Tse-tung himself. In the Soviet Union, the relative lack of change since the death of Stalin expresses the consonance of Russian tradition and Soviet practice; such change as there has been might be described as the relinquishment of Stalinist excesses in order to return to the normal Tsarist level of authoritarianism. (Gray 1979, 267)

\(^{55}\) Ibid.

\(^{56}\) Ibid., 10.


Kathryn A. Szent-Györgyi, likewise, finds that the pre-communist behavioral patterns and attitudes in villages in Hungary carried on and influenced the behavior and attitudes of peasants in those villages well into the 1980s.\textsuperscript{59}

Similarly, there have been studies of cross-country differences in culture. From an analysis of worker surveys from 40 countries Hofstede concluded that the different combinations of four dimensions of national culture - Power Distance, Uncertainty Avoidance, Individualism, and Masculinity explained the differences in organizational structures and work-related values across the countries.\textsuperscript{60} Every feature of the organization – from motivation to leadership, was contingent upon those four dimensions.\textsuperscript{61} Dorfman and Howell building upon Hofstede’s work found that two of the leadership processes that they studied – directive leadership behaviors and contingent punishment leadership behaviors, were moderated by cultural beliefs, and that the other two - contingent reward behaviors and supportive leadership behaviors, were not.\textsuperscript{62} They nevertheless mention that in respect to the latter two the evidence does exist in the literature that cultures differ in how they perceive their importance.\textsuperscript{63} Adler provides a number of examples of how cultural values of different societies shape their


\textsuperscript{60} Hofstede, \textit{Culture’s Consequences}.

\textsuperscript{61} Ibid.


\textsuperscript{63} Ibid., 144.
organizational behaviors and how confusing it can be when one tries to apply managerial principles from one cultural setting to another.\textsuperscript{64}

\textbf{The Current Study}

The main contention between the economic approaches to transition presented earlier and the culture driven approaches to development discussed in the previous section lies in their understanding of the importance of culture specific characteristics for the process of development. Economists place their trust in creating the ‘right’ market institutions that can work within a setting of any country. Cultural theories suggest that institutions operate within a framework of a certain culture that shapes institutional development as well; the process of economic development, then, has its own logic in every country and cannot be easily duplicated within a different cultural setting.

Not all economists disregard culture as unimportant. Institutional economists, through their idea of path dependency, for example, accept informal rules and behaviors as building blocs of institutional structures as well. Their attention to culture, though, is normally limited to obstacles that it creates to the establishment of new market-based institutions. The question of whether the new institutions can fit a particular cultural setting and whether they are needed at all is not discussed, because the establishment of these new institutions is understood as the main goal of transition and a major precondition for attaining successful development.

In this work I do not argue whether one approach is right or the other. I have introduced the economic theories to acquaint the reader with the logic behind the process

\textsuperscript{64} Adler, \textit{International Dimension}. 
of transition in Eastern Europe. I have introduced the cultural theories to demonstrate that certain characteristics of societies not only stubbornly persist through time and change, but also often determine the process of change itself. Taking these macro-level processes as a starting point by presenting a history of Hungarian and Russian economic developments during communism with the emphasis on heir cultural and institutional differences, I then analyze their manifestation at the micro-level – the enterprise.

Enterprise is a driving force of economic development. Economists set up market economic structures so that enterprises had the right environment to become efficient and productive and had the ability to generate economic growth. At the same time, in line with the cultural paradigm, enterprise is a product of the society and culture and it expresses social and cultural values in its behavior. In relation to macro-level processes enterprise demonstrates how the society translates these processes to the micro-level filtering them through cultural values and social preferences.

Without having an understanding of this interrelation one can attain only a partial understanding of political and economic developments in a given country. Despite the presence of all the ‘right’ market institutions, for example, market can be very limited in its ability to set rules of the business game, and this can often only be revealed through an analysis of enterprise behavior.

One comment is in order before I proceed. The focus on economic development in this work does not mean that it excludes the importance of political processes. On the contrary, the study analyzes government decisions (that is, political decisions) that pertain to generating economic change. Economic development, then, is understood in
the content of political economy with culture- and country-specific features at the foundation.

**Framework of the Analysis**

The analysis is structured as follows. First, a historical development of the planned economic system in Russia and Hungary is presented with emphasis on two issues – how the system came about and what kind of reforms had been introduced prior to its collapse. There are a number of reasons why this historical overview is important. It has become a common trend to view the communist period in East Central Europe and the former Soviet Union as something alien, which interrupted their normal path of development for so many years. In the case of East Central Europe it was believed to have existed and lasted as long as it did only because the Soviet Union forced the countries to adopt the system with the threat of military intervention. In the case of Russia it was the communist party headed by Lenin and then Stalin that took over the country and kept it its prisoner until it collapsed in 1991. Little attention has been paid to the economic and political circumstances of the time when the systems in the two countries were coming into being. As a result it was perceived as a structure that had been imposed on the two countries and not developed. Consequently, little merit has been given to the idea that the systems had developed according to the countries’ specific circumstances and cultures and that they were different on the verge of the transition process. The analysis here demonstrates that whereas the Russian economy indeed operated according to the above-presented model, the Hungarian economy did not, already being saturated with elements of the market.
The study then continues to show that as a result of these differences not only the state Hungarian industrial enterprise was different from the Soviet industrial enterprise, but that Hungary had laid a foundation for the legal private sector and private initiative long before the transition to the market started, while the Soviet Union never allowed that in its own country.

I then present the results of a survey of managers of industrial enterprises in the two countries conducted in 2004. The analysis of the survey results focuses on three issues – (1) the degree of the enterprises’ market orientation, (2) outside factors that impede or help enterprises in their work, (3) the political and economic events that have had an effect on their business environment, the job and skills of the manager, and the relationship between businesses and government.

Two general hypotheses are proposed. (1) Hungarian enterprises will systematically display more market oriented behavior than Russian enterprises; (2) regardless of the political and economic developments in the two countries in the last two decades, the businesspeople in both countries will perceive no or little change in their business environment and their work as a result of those events.

The first hypothesis was born from the idea that since Hungarian culture was much more market oriented than Russian culture before the transition process started, Hungarian businesspeople are more likely to be market oriented than Russian businesspeople today. Since it would be a major mistake of logic and common sense to argue a direct link between the communist time and present omitting the one and a half decades of successful transformation in one country and its failure in the other, I do not intend to do so. The market orientation analysis is presented to demonstrate to what
degree industrial enterprises in the two countries have adapted to the new system and whether the qualitative analysis of the results can point at any connections with the communist times.

The second hypothesis is based on the premise that if the two countries had developed according to their own specific paths of development and cultures before the transformation process started, the economic and political events of the post-communist transformation would be a continuation of that process and none of the political and economic events of the transition process would be perceived as having had an effect on the business environment and enterprises.

The survey results support the first hypothesis that Hungarian businesspeople are more market oriented than Russian businesspeople and partially support the second hypothesis showing that economic and political events of the last decades have had little or no influence on the life of Russian enterprises but have had a significant influence on Hungarian enterprises.

The final discussion of the analysis provides a link between the main findings of the survey and the historical analysis. Among other things it demonstrates that business practices in the two countries do indeed display features whose origin can be traced back to the communist period, and that the influence, or the lack of thereof, of political and economic events on enterprises in the two countries can be understood through a prism of the countries’ distinct legal traditions.

The main objection that one may have to the approach presented in this work is its seemingly light treatment of the reform process of the 1990s as an influential factor in explaining current developments. Two counter objections can be brought against such
arguments. First, there have already been many studies that demonstrated the effects of the reform choices on various aspects of countries’ development, the limitations of such approaches for explaining development, and the influence of culture on the process of development.\textsuperscript{65} Second, what this study seeks to do is to discover the continuity in the country’s development through finding similarities between its communist past and immediate present; and, in this respect, any effect that the most recent reform processes have had are beyond the scope of the study.

Russia was chosen for the analysis because it was the country where the Soviet economic model was born and operated until its collapse. Hungary was chosen for comparison with the differences described above.

**Structure of the Thesis**

The remainder of the thesis is structured as follows. Chapters 2 and 3 provide the historical analysis of the economic changes in the Soviet Union and Hungary since the advent of communism until its collapse. Chapter 4 compares the state and private sector in the two countries before the transition to the market began and the implication of their differences for the transition process. The next three chapters present the results of the survey: Chapter 5 focuses on the survey methodology and respondents’ description, Chapter 6 analyzes the enterprise behavior and their market orientation, and Chapter 7 discusses external constraints and events that have influenced enterprises’ business

environment. Chapter 8 brings the results of the historical analysis and the survey together to show the continuity in each country's development, and concludes with the lessons that can be learned from the research.
CHAPTER 2
SOVIET ECONOMIC DEVELOPMENT

-What is worse than an atomic bomb?
- Battleship Aurora: one shot brought seventy years of destruction.\(^1\)

At the current stage of economic development of Russia, when the emphasis is on the country’s transition to the market, only basic institutional principles of the soviet economic model are remembered, because those are the principles that the market reform has been introduced to change. Since the model is normally perceived to have been created on the basis of ideological principles of communism and since the communist ideology is no longer in the leading position, the political and economic circumstances that prompted its development are often overlooked as irrelevant for understanding the current stage of economic development of the country. The objective of this chapter is to demonstrate that the model did not develop simply out of some ideology that the communist party imposed on the country, as many wish to see it. The model was as much of a product of political and economic circumstances at the time of its establishment as of some ideology that Russian communists often stretched to fit the circumstances.

This chapter first outlines the historical events that led to the development of the traditional Soviet economic model as described in chapter 1 and then traces economic reforms that aimed at ‘improving’ the model from the 1960s until 1991.

Often an analysis of a country’s economic development is limited to certain criteria. The dominant approach to explaining the development of the Soviet Union has been to focus on the ideology and its role in shaping the development. Ideology has been

\(^1\) On the day of the Revolution in 1917 the Battleship Aurora fired a blank shot that was a signal for the revolutionaries to start the storm of the Winter Palace - the building where the provisional government met.
used to explain the domination of state ownership and eradication of private initiative, the collectivization of agriculture and the establishment of the centrally planned economy. Historically determined political and economic circumstances in this approach receive very minimal attention.

An alternative approach, which this study takes as a starting point, stresses the importance of understanding historical circumstances on par with ideology in order to explain why the country preferred a certain path of development at any particular point of time.

My goal in this chapter is to demonstrate that communism did not happen in Russia ‘out of the blue;’ that it was not some alien phenomenon that kidnapped the country and its people for the next seventy plus years, but rather was a continuation in the country’s development; and that its development ideologically, economically, and politically had Russian roots and one only has to look at the historical facts to see it. Given all of the above, its mere dissolution in 1991 could not quickly change the basic foundations of the economic system and bring a miracle of economic recovery and fast development of the market economy, as many believed would happen as soon as the Russian people were freed from the ‘chains’ of the system.

The Birth of the Socialist State and Command Economy

The transformation of the Russian Empire, which subsequently came to be known as the Soviet Union, began with the Great October Socialist Revolution of 1917 as a

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2 The Soviet Union was established in 1922.
result of which the Russian Bolshevik party\textsuperscript{4} seized power. Even though the one-party system with the dictatorship of the proletariat and nationalization of the means of production along with other major changes in line with Marxist ideology took place in the first years after the revolution, the Soviet economic model, as we know it, did not fully come into being until the end of the 1920s – beginning of the 1930s, under Stalin’s leadership. In fact, the economic arrangement that preceded it was anything but the highly centralized administrative-command economy that came to be identified with the Soviet Union. The years of 1921 to 1928, known as the NEP– the New Economic Policy,\textsuperscript{5} saw an establishment of a rather mixed economy with legalized private agriculture, private trade, and some small scale private manufacturing. Why, then, had the final system evolved into something absolutely different with the abolition of private initiative, complete removal of the market, and a highly centralized and administratively managed economy? Or one may rather ponder why did the NEP even happen if the ideology, presumably, called for a centralized planned economy to be established in the first place?

On one hand, ideology in itself cannot answer these questions, because these two quite opposite systems happened to develop under the leadership of the same Communist

\textsuperscript{3}The revolution took place on October 25, 1917 according to the old Russian Julian calendar and on November 7, 1917 according to the Gregorian calendar, which the country finally adopted in 1940. Since the discrepancies between the two calendars are a matter of days and the precision to the day is not important for the narrative that follows, no special attention will be given as to which calendar is used when a date of an event is given.

\textsuperscript{4}The party that later became known as the Communist Party of the Soviet Union went under the name the Bolsheviks before 1917. The party came into being as a faction that sprang from the Russian Social-Democratic Labor Party established in 1899.

\textsuperscript{5}Although there is some debate as to when the NEP actually ended, 1928 is most commonly considered to be the year when the shift away from the policies of the NEP began. The confusion stems from the fact that even in 1931 official references to the NEP could be heard and the first five-year plan
party. On the other hand, if one considers the achievements of the NEP – the recovery of the economy to its pre-war level, rapid growth, stabilized currency, balanced budget even generating a surplus in the 1924-25 fiscal year, one cannot help but consider its removal as a result of its ideological incompatibility, rather than some circumstances that rendered it unusable. It appears that ideology and circumstances played equal roles in the country's development of the time.

The Communist Party of the Soviet Union claimed Marxism, and later Marxism-Leninism, as the guiding force of its ‘construction’ work. The problem was, though, that besides the main postulates, such as the dictatorship of the proletariat and the nationalization of the means of production, they could borrow little step-by-step guidance from actual writings of Marx, because of the discrepancies between the situation in Russia and the situation of transition to communism that Marx had written about.

The transformation that Marx had predicted was to happen in a society that was already passing through a mature stage of capitalism; Russia at the time of the Revolution was only on the brink of establishing a capitalist society. As a result, any guidance that may have been drawn from Marx’s writings as to how the transformation was to proceed adopted in 1929 called for an increase in the national income generated by the private sector. (Alec Nove, *An Economic History of the USSR: 1917-1991*, 3rd ed. (London: Penguin Book, 1992), 133.)

6 The word ‘construction’ here refers to ‘building’ socialism and, subsequently, communism.

7 Russia was still a quite backward society at the time. Here is how Gregory and Stuart describe it: “Russia’s per capita income ranking placed her among the poorest countries of Europe. The sheer size of the Russian Empire and the magnitude of Russian agricultural output masked the per capita weakness of industrial outputs. The peasants, not the industrial workers, was still the dominant figure in the Russian economy. A minority of the population – and therefore the labor force – was literate, indicating poorly developed human capital; illiteracy was nearly complete among the vast, underemployed peasant population. Russia’s demographic pattern was still roughly comparable to that of the developed countries during their pre-modern periods. Birthrates, death rates, and, especially, rates of infant mortality remained stubbornly high. Industrialization remained dependent upon foreign capital. It was not clear whether the most highly organized institution, the tsarist bureaucracy, was a help or hindrance to economic
could not be applied to the situation in Russia. The Russian Communist party had to develop their own strategy of ‘revolutionary change’ relying on their own judgment and interpretation of the Marxist ideas and on the circumstances at hand.

The Bolsheviks thus rejected the pattern that Marx seemed to have envisaged for the west – of the bourgeois revolution giving rise to an initially stable bourgeois-dominated regime, under which the economic and other conditions necessary for socialism would be put in place. During 1917 and after it, the Bolsheviks acted on the assumption that in Russia things would have to be done the other way around. The socialist revolution, that is, the seizure of power by socialists, would have to come before the socio-economic and cultural transformation which, according to theory, should have preceded it. In Russia the socialist regime would itself create the conditions necessary for socialism rather than be created by them. Between the revolution and the achievement of socialism, there would, therefore, have to be a transition period of unpredictable length, during which the regime’s first task would be to bring the country to the point of readiness for socialism which ‘should’ have been achieved under a bourgeois government. (Gooding 2002, 8)

Lenin believed that the lack of mature proletariat in Russia, which was expected to be the driving force behind the socialist revolution, would be compensated by the strong leadership of the party of ‘dedicated professional revolutionaries’ that would rely on waking up the socialist potential in the Russian peasantry. Hence, the establishment of a strong centralized state under the guidance of the party in the first years after the revolution.

The Russian peasant commune deserves special attention as it was at the core of the belief that Russia could arrive at socialism its own way. Russian peasant life was

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8 There is some evidence that at the end of his life Marx came to believe that a different Russian way to socialism was possible utilizing the potentials of the Russian peasant communes (see, for example, Haruki Wada, “Marx and Revolutionary Russia,” in Late Marx and the Russian Road: Marx and ‘the Peripheries of Capitalism,’ ed. Teodor Shanin, 40-75 (New York: Monthly Review Press, 1983)). This shift in Marx’s attitude did not make the task for the Russian communists any easier, though, because it never developed into a comprehensive theory or even some systematic explanation.
organized around their village communities, called *mirs*. The communes were to a great extent self-governed. The day-to-day business of the commune was carried out by an elected headman. The commune made its decisions through a village assembly in which a head of every household had a vote and which every adult could attend. There were certain principles that the communal life abided by:

> The basic rules of the Russian village were mutual support, mutual responsibility, and fair shares for everybody. Each should have enough to get by – but nobody should have too much. Each should act socially responsibly and nobody should imperil the general welfare, and stern action would be taken against anyone who did flout the unwritten code. (Gooding 2002, 2.)

Even the land allocation between different households, which was the responsibility of the commune, was carried out in accordance with these principles – instead of cultivating one chunk of land, each household received narrow strips of land in different places so that the bad and the good land was divided out evenly between them. The distribution was done in accordance with the households’ work capacity or its size, and it was revisited every so often to adjust to any changes in these regards. Even when peasants left their villages to seek work in the cities, they would organize a sort of workers’ communes, called *artels*, sharing “work, wages, and hardships.”

The fact that former peasants laboring in the city kept close ties with their village communes proved to be an obstacle to the formation of a solid class of proletariat, because they often returned to the villages when times got difficult in the city.

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10 Gooding, *Socialism in Russia*, 2.
These main features of the Russian peasant commune—“more or less universally accepted principles of equality and social solidarity,”¹¹ were praised by many Russian intellectuals and thinkers and made the commune, unknowingly, the centerpiece of strategies of socialists of all kinds.

In 1917 the matters for Communists were further complicated by the fact that Marx distinguished between two types or stages of communism, one of which, the crude communism, was eventually to lead to the final stage of communism. The Bolsheviks themselves termed the first type ‘socialism’ and the second type actual ‘communism.’ The first phase of development after the revolution, therefore, constituted a transition period towards the first type of communism—socialism, which was a transition period in itself. Since in Marx’s view the first stage was to come naturally as a result of the capitalist society’s development and its inner contradictions and was to be fairly short, it did not receive much attention, let alone explanation, in his writings. In Russia, on the other hand, it was an important stage. Not only did the Bolsheviks have to devise strategies to bring the society to socialism, they had to determine when it was to begin and, eventually, to end.¹² Thus, there was little guidance from Marx for the Russian communists regarding how to proceed with the transition to socialism.

This ideological confusion manifested itself in an apparent lack of strategy after the take-over in October of 1917. Lenin himself wrote “there was not and could not be a

¹¹ Ibid.

¹² Gooding points out that in the beginning a distinction was made between a ‘socialist society’ and a ‘society living under socialism,’ with the former being in the transition to the latter. The distinction was finally abandoned when Stalin in the 1930s declared that socialism had been achieved. The author further points out that the party eventually was not eager to declare communism too soon, because it would mean the end of its power; “the optimal target date for communism was some imprecise midway point between the utterly remote and the fairly near future” (Gooding, Socialism in Russia, 11-12).
definite plan for the organization of economic life.”¹³ Most of the first policies that one would have expected to happen for ideological reasons – the transition of power to the Soviets of Workers’, Soldiers’ and Peasants’ Deputies, nationalization, and appropriation of land, were, in reality, spontaneous processes legitimized by the communist government ex-post-facto. Below is a brief description of these main developments.

Right after the Revolution the Bolsheviks transferred government power to the Soviets of Workers’, Solders’ and Peasants’ Deputies, which became the foundation of the Soviet political system. The institution of the Soviets, though, was not created by the Communist party, and their power did not come from a revolutionary decree:

While central power was breaking down in Petrograd [in 1917, before the revolution], moreover, it had virtually collapsed in the rest of Russia. And in the non-Russian regions, local self-government was already a reality...An alternative government existed in the soviets in practically every region, province, city and town of Russia. Soviets were not omnipotent organizations. But they were stronger than any of their institutional rivals; they had formal hierarchies stretching from Petrograd to the localities; they had personnel who wanted a clean break with the old regime of Nicholas II and the new regime of Lvov and Kereniska.¹⁴ (Service 1998, 60).

What the Bolsheviks did was they changed the de facto power of the Soviets into de jure with little additional instructions as to how the Soviets were to organize their further work. Yakov Sverdlov, Secretary of the Central Committee of the party, wrote to a local


¹⁴ Prince Georgi Lvov and Alexander Kerenski were ministers in the Second Provisional Government. Between the time when the Monarchy abdicated, March 2 of 1917, and the Revolution, there were two Provisional Governments.
party activist: “You understand, comrade, that it is difficult to give you instructions any more concrete than ‘All Power to the Soviets.’”¹⁵

The decree nationalizing medium and large enterprises came in June of 1918. There is still debate whether the Bolsheviks had planned an all-around nationalization of enterprises from the very beginning or they were opting to keep a mixed economy for a while, but were forced to take a step in that direction by the circumstances. “It would certainly be wrong to assume that local Soviets, even communist-controlled, acted because the center told them to. The large majority (over two-thirds) of nationalizations were local, until June 1918, and may have been due to genuinely local decisions.”¹⁶ The acts of initial nationalization had taken place at the end of 1917 – beginning of 1918 without any official policy calling for it. The government had to issue a decree on January of 1918 proclaiming nationalization without central orders illegal, and then follow up with another decree in April of 1918 of the same nature but with establishing harsher punishments, because the first one had not been observed. This clearly indicates that the process was not under the Communists’ control.

The same fate was bestowed on small enterprises. In the beginning it was conceived impractical by the communist leaders to nationalize small-scale industry.¹⁷ The process, though, had started spontaneously and the government had to issue a decree in April of 1919 prohibiting such actions. The decree did not have any effect and by

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¹⁷ Ibid., 63.
November of 1920, when nationalization of small-scale industry was finally made an official policy, ‘most of it had already been either nationalized or paralyzed.’

The strong local workers self-management, which was the driving force behind the ‘illegal’ nationalizations, did not originate with the Communist proclamation of the dictatorship of the proletariat in 1917 either. The factory-workshop committees that were the leading force of self-management had already existed during the provisional government. The decree on workers’ control of 1917 that gave them more power just ‘appeared to put the seal of legality on growing syndicalist, not to say anarchic, tendencies which had been increasingly manifesting themselves for months before the Bolshevik seizure of power.’

In the villages, likewise, peasants had started taking actions before the Communist party came to power in October of 1917 and announced its agrarian reform based on expropriation of estates in its Decree of Land. In addition to illegal uses of land to grow crops and graze livestock, theft of crops and equipment, and illegal cutting of timber, outright seizures of land had been recorded as early as March of 1917 with its occurrences reaching 237 cases in June of the same year. Even after the land decree came into force, Nove notes that


neither the Bolsheviks... nor any political force, could tell the peasants what to do. Each village made its own arrangements, which varied widely between and within regions... it was not in fact a reform undertaken by the authorities, it was a more or less elemental act by peasants, with government organs accepting and by implication legitimizing what was happening. (Nove 1992, 41)

18 Ibid., 72
19 Ibid., 42.
20 Service, Twentieth-Century Russia, 55-56.
The Bolsheviks themselves in 1917 rode to power on the waves of socialism that they had not created. In the summer of 1917, just a few months before the revolution, the Bolshevik party was in the background of the political process. It was socialist ideas, which were often quite different from the Bolsheviks’, which were guiding the country with the Mensheviks and the Party of the Socialist-Revolutionaries in the lead. The Monarchy abdicated in March of 1917 and the two Provisional governments that followed were under strong influence of these two parties. Even the Constituent Assembly, which was elected after the revolution in the first more or less free elections in the country (and the last until the 1990s) but was dissolved by the Bolsheviks right after the election, gave the Bolsheviks only 25% of the votes, while the Socialist-Revolutionaries, for example, received 37%. “The Constituent Assembly polls had given eighty-five percent of the vote to socialists of one kind or another. But the Bolsheviks were a single socialist party whereas the working class wanted a coalition government of all socialist parties.”

In other words, the Bolsheviks rose to power in the country that had welcomed a socialist ideology long before the revolution and whose people themselves had initiated all the processes that are now identified solely with the ideological work of the Soviet Communist Party.

21 The Mensheviks were another faction that sprang from the Russian Social-Democratic Labor Party and was, to some extent, similar to the Bolsheviks. The party of the Socialist-Revolutionaries differed from the Bolsheviks and the Mensheviks in its reliance on the peasantry, and not the proletariat, as the main revolutionary force.

22 Service, Twentieth-Century Russia, 74.

23 Ibid., 82.
War Communism

The first initial confusion as to what to do with the country that so suddenly fell into the hands of the communist party was gradually phased away and starting in the middle of 1918 the communist government began to introduce more or less consistent policies. The country had gone through two distinct periods of economic and political changes before finally settling for the system that was described in chapter 1. The first period, that lasted from the middle of 1918 until 1921 is known as war communism. The second period, which is described in the next section, was the era of the New Economic Policy.

The basic features that came to be identified with war communism, besides nationalization and expropriation of land, were forced requisition of agricultural surpluses (*prodrazverstka*) and their distribution according to class and social background; a ban on private trade, which nevertheless prospered through the black market; elimination of money from economic life – the naturalization of relationships between the state on one hand and its citizens and enterprises on the other; and the militarization of labor.24

As the name suggests, war communism was a policy of a war period. After the Revolution the Bolsheviks had a task of not only consolidating and preserving their power, but also taking control of the country's broken economy to face the consequences of World War I and to combat the Civil War that was just beginning. In times of war any government, even the most democratic one, opts for increased government intervention in the economy to generate resources necessary to combat the war. In Russia, this necessity
was magnified by the concurrent internal political developments. The spontaneity and unruliness of most economic and political processes completely undermined the new government’s ability to control the economy by indirect means, if such would have even been considered. The communist party with its revolutionary agenda and little plan for implementing it had very limited experience in country governance; and the only historical example from which it could tap the necessary knowledge was the authoritarian style of government of the Tsar. As a result, war communism was born with its emphasis on strong government control of and intervention in the economy.

War Communism was not exactly a planned development, though. It was rather a product of circumstances, one leading to the other, and the government’s choice as to how to react to those circumstances.

The collapse of the ruble and the dire situation of industry prompted the government to ‘bail out’ enterprises in need, which, unintentionally, led to the elimination of money from and naturalization of the transactions with nationalized enterprises.

It began with cash advances by VSNKh [the Supreme Council of National Economy] to meet wages payments and other expenses for those enterprises which happened to have run out of liquid resources. This practice spread. At first, many of the advances were supposed to be credits and not grants. However, in the general conditions of chaos and collapse, the practice of meeting the running expenses of the economy out of the budget became almost universal and cash payments gradually lost their significance. (Nove 1992, 57)

As this happened, workers and employees could not be paid their salaries with money either and, thus, could not be charged for food, consumer goods, and such services as transportation, housing, or mail. This eventually spread to other strata of the society.

\[24\] For a full analysis of the policies of war communism see Silvana Malle, The Economic
Private trade was declared illegal as soon as money was no longer functional. The collapse of the monetary system, however, was not the sole reason for the abolition of private trade. As the shortages of food continued, private ‘distribution’ of foodstuffs posed an additional obstacle to the government’s attempt to secure food supplies to cities strategically important for their war time industries. First came the restriction on private trade in the main agricultural categories. Then, the system of barter between industrial enterprises and peasants replaced the trade in agricultural products altogether, which had actually been put into practice by enterprises and peasants before the government made it official. Finally, the forced requisition of food surplus was imposed on the peasants.

The policy of forced food requisitions was not new to Russia either. The Tsarist government had introduced the policy once before in response to the same problems that the Bolsheviks were facing – the shortage of food supply to industrial centers so vital for the war economy.\(^{25}\) What was unique about the policies of the communist government was their ideological justification as a struggle against bourgeois elements in the village. A party decree of May of 1918 read:

> While the consuming provinces are starving, great stocks of cereals, including the 1916 harvest and the 1917 harvest which has not yet been threshed, lie, as habitually, in the producing provinces. These stocks are in the hands of the rural kulaks and wealthy people, in the hands of the rural bourgeoisie. Replete and satisfied, having accumulated an enormous mass of money earned in the years of war, this rural bourgeoisie remains deaf and unresponsive in the face of the moanings of starving workers and poor peasants; it refuses to dispatch cereals to the state station points with the aim of forcing the state to increase again and again the price of cereals, while at the same time it sells for its own benefit cereals in the provinces at fabulous prices to speculators and bagmen.\(^{26}\)

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\(^{25}\) Malle, *War Communism*, 323.

\(^{26}\) The word *bagman* comes from the Russian word *meshochnik* and refers to people that moved the foodstuffs for illegal trading on the black market.
The reply to the violence of grain holders upon the rural poor must be violence upon the bourgeoisie. (Malle 1985, 359-360.)

Malle points out that the Bolsheviks were aware of other policy alternatives undertaken in the countries like France and Britain, which could have been used in place of forced food requisitions. Apparently, the party chose the policy because it provided the most attractive alternative at the time. “The policy undertaken….was based on a rough evaluation of the relative costs of alternatives, as well as on political assessments.”

Ideology in this case was exploited to justify the policy and give it a character of legitimacy, rather than to guide the party in the policy-making process.

It is all too easy to attribute economic and political developments to some official ideology, because the latter always comes through clearly in official documents. Economic and political facts, which are often the actual driving force behind different developments, can be scattered throughout history and do not present themselves easily to the observer. In Russia this phenomenon often manifested itself in the revision of the dominant ideology to justify actions that had been taken in response to circumstances. For example, when the money lost its value, the naturalization of the economic relationships came to be perceived by many as the sign that the society was clearly moving towards socialism, even though this ‘feature’ of socialism had never been mentioned before. Likewise, one of the prominent communist leaders of the time, Bukharin, rationalized the destruction of industry as being the necessary step on the way to building a socialist society from anew.28

27 Malle, War Communism, 374.
By the same token, it is difficult to understand just what war communism was. Lenin, for example, justifying the party’s switch to the NEP in 1921 declared that ‘War Communism was thrust upon us by war and ruin. It was not, nor could it be, a policy that corresponded to the economic tasks of the proletarian;’” it was “a mistake” that was “in complete contradiction to all we wrote concerning the transition from capitalism to socialism.”29 At the same time, Roberts points out that Lenin originally considered war communism as the move in the right direction to establish socialism and not just some measures necessitated by war.30

The NEP was, likewise, justified ideologically as a necessary evil, ‘a step backward’ from socialism that had to be taken in order for the country to take ‘two steps forward’ in the future. In reality, however, the new policy was the government’s response to civil unrest all throughout the country that was threatening the government’s already shaky powers.

The next section briefly looks at that ‘step backward’ that was taken during the NEP years just to demonstrate the stark contrast between its policies and the policies of war communism. I do not focus on the reasons that brought the NEP, because it is not important for the analysis. My goal is to simply demonstrate, by presenting the major features of the NEP, that the same Marxist ideology that was used in defense of war communism was now twisted around to justify the necessity of the NEP.


The New Economic Policy (NEP)

The end of the era of war communism and, subsequently the beginning of the NEP, came when the obligatory requisitions of agricultural surplus were replaced by the proportional agricultural tax in March of 1921. Peasants were given the right to use the excess product, which remained in their hands after the tax, as they wanted, including selling it on the local market. According to Nove private trade had to be legalized if the government wanted peasants to make the excess product available to the areas suffering from the lack of food.\(^{31}\) Since it would have been difficult for peasants to travel thousands of miles to remote areas to sell their own product (especially considering that the majority of transporting in the country at the time was done on horse-ridden carriages) private trade became the only alternative.

Likewise, small-scale private manufacturing had to be allowed if the problem of shortages was to be overcome at all.\(^{32}\) In 1921 the earlier decree nationalizing all small-scale industry was revoked. Enterprises that escaped nationalization were allowed to re-open. The same year a decree was issued allowing private individuals to organize small-scale production. State enterprises could be leased out; even some de-nationalization occurred with the return of enterprises to their former owners (although this was very minimal).

The restructuring of state industry progressed along the same lines. The no-money relations were abandoned. The practice of running industry as one giant enterprise with the VSNKh at the top was given up. Nationalized enterprises were divided into two categories. The first category that included fuel, metallurgy, war industries,\(^{31}\) Nove, History of the USSR, 79.
transportation, banking, and foreign trade, remained dependent on the state budget and central allocation of supplies. The second group was shifted to a new commercial based system (khozraschet), in which ‘profit-making and the avoidance of losses were to be the operational criteria.’ The latter enterprises were allowed to form trusts that were given legal authority to enter into independent contracts. By 1922 trusts were operating on the market with no priority given to the state; ‘if ‘privateers’ offered better prices, they handled the goods. If private contractors or intermediaries gave better service than the trading organizations which were slowly replacing the material-allocation bureaucracy of the war communism period, then here too the Nepmen got the business.’

The currency was stabilized, the no-money relations with the population were abandoned as well, and the country was re-opened to trade with the outside world again, although still on a limited basis. The results of the NEP were impressive.

Economically, it appeared that the NEP had succeeded beyond everyone’s expectations. Agricultural output in 1922 has risen enough for the Politburo to resume the export of grain. As trade between town and countryside increased, output recovered. By 1923, cereal production had increased by twenty-three percent over the total recorded for 1920. Domestic industrial recovery also gathered pace: in the same three years output from factories rose by 184 percent. (Service 1998, 155)

Considering that by 1922-23 seventy five percent of all retail trade was in private hands, the NEP became a very big ‘step backward’ by any measures, but it did attain a

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32 Ibid., 80-81.
33 Gregory and Stuart, Soviet Economic Structure, 61.
34 Nove, History of the USSR, 83.
36 Nove, History of the USSR, 83.
37 Ibid.
stable rate of growth and stabilize the economy. Was its abandonment, then, an act of bringing the party and the country back in line with the Marxist ideology or were there any other reasons?

**The Establishment of the Traditional Soviet Economic Model**

Apparently, the achievements of the NEP gave birth to the controversy that eventually led to its disintegration. Bringing the country’s economy to its pre-war level naturally raised the question of what had to be done next.

An extraordinary debate on how to initiate economic development took place in the Soviet Union between 1924 and 1928 that anticipated Western discussion on the same topic by some 25 years. Its participants ranged from leading party theoreticians to nonparty economists, and its audience included almost everyone of political and intellectual importance in the Soviet Union. The most remarkable feature of this debate was that it raised a multitude of questions concerning development strategy – issues of balanced growth versus unbalanced growth, agricultural savings, the proper scope of planning, taxation, and inflation to promote development – that are still widely debated among Western students of economic development. The debate focused upon the alternative development strategies open to the Soviet economy in the late 1920s. (Gregory and Stuart 1986, 76)

Here I focus on the issue that eventually divided the party and determined the fate of the Soviet economy – the issue of industrialization.

The necessity of further industrialization of the country’s economy was acknowledged by everyone; the controversy rose when the discussion turned to the question of its pace and scope. A group of party leaders, that came to be identified as the left opposition, opposed the balanced development tendencies of the NEP and called for a rapid industrialization at the expense of the peasantry.

Encouraging the growth of the peasant and private sectors of the economy, argued the leftists, would quickly drain capital away from the state. This was a dangerous tendency, so the argument went, because it would create an investment crisis in
the state’s industrial sectors. At the same time, economic policies that favored private agriculture and trade would make the government vulnerable to the economic power of hostile social classes – the peasants and urban trading strata... The government should regulate prices and taxes ... to force peasant producers and consumers to bear the burden of capital accumulation for the state’s industrialization drive. (Shearer 1996, 82).

The party’s majority leaders, including Stalin, opposed to such a radical plan and opted for the continuation of the NEP’s line of balanced development of the economy. ‘Stalin emphasized the achievements of NEP and ridiculed the left’s super-industrialization proposals and the left’s demand that ‘tribute’ (primitive socialist accumulation) be paid by the peasants.... he made it clear that any movement in the direction of collective farming would be gradual and voluntary.’

The left opposition was eventually silenced and removed.

The paradox lies in the fact that after the party was rid of the leftists, Stalin turned against his former allies, removed them, and adopted the approach propagated by the leftists. This radical turn in his thinking first surfaced in his response to the grain procurement crises in the second half of the 1920s. Despite the voices advocating solving the problem with indirect means, such as increasing agricultural prices, Stalin undertook an offensive against the peasants of certain areas, precisely the Urals and West Siberia, along the lines of the policies of war communism:

There went Stalin with a task force of officials and police. Free markets were closed, private traders thrown out, peasants ordered to deliver grain and punished as criminals if they failed to do so. (Nove 1992, 150).

38 Gregory and Stuart, Soviet Economic Structure, 92.

39 For more details, see Lewis H. Siegelbaum, Soviet State and Society Between Revolutions, 1918-1929 (Cambridge, Great Britain: Cambridge University Press, 1992), 190-203.

40 This later came to be known as the ‘Urals-Siberian method.’
Even though right afterwards he officially denounced his methods and promised that ‘nothing similar would be repeated,’\textsuperscript{41} this was a sign that Stalin’s position was shifting away from the principles of the NEP.

Nove points out that among the reasons that prompted the shift in Stalin’s opinion were the following:

(1) The desire by many party members, and notably Stalin himself, to eliminate an individual peasantry which, as Lenin had said and Stalin repeated, ‘produces capitalists from its midst and cannot help producing them, constantly and continuously...’

(2) The problem of industrial development, with priority of heavy industry, and the linked issues of capital accumulation and farm surpluses.

(3) The price policies, in industry and agriculture, which developed in 1926 and were obstinately continued, and which could of themselves have destroyed NEP, even if no other complications had ensued.

(4) The political atmosphere, the prejudices against the market and Nepmen generally, the rise of monolithism and of Stalin, the ‘leap forward’ psychology. Fears of internal class enemies and also of the hostile environment, affected both the social policies of the regime and the degree of priority accorded to heavy industry, as the basis of military capacity. (Nove, 157-158, see also Sigelbaum, Chapter 5).

Under these circumstances, at the end of the 1920s Stalin moved to establish the highly centralized command economy, began intensive industrialization of the country with the emphasis on heavy industry, and undertook the notorious policies of forced collectivization.

**Reforms of the Soviet Model.**

After the system was established in the 1930s economic debate was eradicated, criticism was not allowed, attempts to bring attention of the high officials to the idea of the reform ended in the execution of the initiators.

\textsuperscript{41} Nove, *History of the USSR*, 152.
Criticism of the system became dangerous, and economic failures were attributed to individual mistakes and willful sabotage, not to the system itself. The ‘law of value’ – supply and demand – was declared by Stalin not to operate in a socialist economy.

By the 1930s it had become dangerous to argue for either the positive role of market forces or the existence of economic laws in a planned socialist economy. Increasingly, planners shied away from concepts such as ‘equilibrium’ and ‘balanced growth’ as unnecessary constraints on their freedom of action, and most economic theorizing ground to a halt. (Gregory and Stuart 1986, 391)

The first attempts to experiment with the system were made only under Khruschev in the late 1950s- beginning of the 1960s, albeit very limited. They were confined to the reorganization of the ministerial system – to be more precise, its decentralization, replacing branch ministries with regional economic councils, but were eventually reversed by Khruschev’s successor. The main achievements of Khruschev’s era were probably the liberalization (even though partial) of the political environment, opening it up to economic debate, and some shift of priorities from heavy industry to the production of consumer goods. Other changes that he introduced were piecemeal attempts at improving the system:

- drastically improved incentives for agriculture; the extension of cultivated land by ploughing up the ‘Virgin Lands’ of northern Kazakhstan and southern Siberia;
- campaigns to change cropping patterns; ...
- the initiation of large scale imports of machinery and know-how (specifically to upgrade an extremely backward chemical industry, though this practice was later extended to more branches of the economy); the development of foreign trade more generally; the first large-scale importation of food; a wage reform with the introduction of a minimum wage and a shortening of the working week; the start of a major program of housing construction; the publication of official economic statistics. (Hanson 2003, 52).

The first more or less comprehensive reform was introduced by Premier Kosygin in 1965 (under Leonid Brzhnev as the First Secretary of the Communist Party). The reform itself was quite conservative, but it was preceded, from about 1962 to 1965, by an
open discussion of various reform alternatives. The debate, sometimes referred to as the “Liberman discussion”, is worth attention, because the 1965 reform was drawn on the basis of the ideas voiced during the debate, and especially the ideas of Evsei Liberman.

The Liberman Discussion

The beginning of the debate is normally attributed to the publication of the article “The Plan, Profits, and Bonuses” by Evsei Liberman in the official party newspaper Pravda. The ideas expressed in the article highly influenced the final reform. The article was written in a very plain and clear language and it is worth quoting the author’s words extensively:

> It is necessary to find a sufficiently simple and, at the same time, substantiated solution for one of the major tasks set by the CPSU [the Communist Party of the Soviet Union] Program, which is to develop a system of planning and assessing the work of enterprises so that they will be vitally interested in the highest possible plan targets, in introducing new machinery and improving the quality of output, in a word, in the highest efficiency of production.

> This can be achieved, in our opinion, if the enterprises are presented with plans only with respect to the volume of output and the assortment and dates of deliveries. Moreover, this should be done in such a way that the direct contacts between suppliers and consumers are taken into account as much as possible.

> All other indices should be communicated only to the economic councils; there is no need to distribute them among the enterprises.

> On the basis of the targets for volume and assortment of output, the enterprises themselves should work out a complete plan that covers, among other things, labor productivity, quantity of work force, wages, costs of production, accumulations, capital investments, and new machinery.

> How can the enterprises be entrusted with the job of working out plans when at present all their draft targets are usually much lower than their actual capacities?

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43 Liberman had published his ideas before, in the 1950s, but Gregory and Stuart point out that it was the publication in the official party newspaper that signaled the party’s willingness to hear the debate. (Gregory and Stuart, Soviet Economic Structure, 397.)
This can be done if the enterprises have a maximum interest, both moral and material, in making full use of their reserves not only in the process of the fulfillment of plans, but also during the drafting stage. For this purpose it is necessary to work out and approve long-term plan norms of profitability for every branch of production. It would be most expedient to approve these norms centrally, in the form of scales determining the size of bonuses to enterprise staffs in dependence on attained level of profitability (in the form of profit in percent of production assets). (Liberman, ‘Plans, Profits, Bonuses,’ 79. Emphasis by the author)

According to the author this proposal would resolve a great number of problems that the Soviet industry was facing. It would solve the problem of poor utilization of existing enterprise capacities and equipment and would provide disincentives to enterprises to keep high stocks of unsold goods, because profit would be calculated in relation to production assets. Subsequently, ‘the enterprises will no longer ‘fight’ to get unjustifiably low plans, for such plans would not give the enterprises sufficiently high profitability.’ Similarly, enterprises would strive to increase their labor productivity, because ‘asking for, and hiring, superfluous manpower’ would reduce their profitability as well. For the same reason - increasing profitability, enterprises would strive for the reduction in the cost of production. At the end, profitability would be important, because it would become the only determinant of managers’ and workers’ bonuses. A system of additional bonuses would be developed to reward enterprises for producing


45 Ibid., 81-82.

46 Ibid., 82.

47 Ibid.
new goods; similarly, reductions in bonuses would be implemented to punish enterprises for producing the same goods for a long time.\textsuperscript{48}

Giving enterprises more ‘authority’ was not meant to replace central planning. “All the main levers of centralized planning – prices, finances, the budget, accounting, large capital investments – and, finally, the value, labor and major physical indices of rates and proportions in the sphere of production, distribution and consumption will be determined centrally.”\textsuperscript{49} The goal of the measures was to improve the efficiency of central planning. Likewise, profitability would only apply as long as the enterprise met the plan targets for the volume of output, assortment and quality of goods and terms of delivery.\textsuperscript{50}

Liberman did not suggest any specific measures regarding how to improve the price system, but he did mention that prices, remaining stable, nevertheless, should become flexible. ‘Prices must combine stability and flexibility. Prices for industrial goods must be revised as the correlation changes between the average cost of production of a given branch and the operative prices, with due consideration for the new goods’ novelty, quality, and effectiveness in operation or consumption.’\textsuperscript{51}

The author made sure to emphasize that there was no danger of abandoning the socialist ‘way’ in relying too much on profit, because profit in a socialist society was different from capitalist profit. ‘Our profit has nothing in common with capitalist profit.

\textsuperscript{48} Ibid., 84.

\textsuperscript{49} Ibid., 82.

The essence of such categories as profit, price, and money is quite different with us, and they successfully serve the cause of the building of communism.”\textsuperscript{52}

It appears that the other contributions to the debate simply provided a ‘variation on the same theme’ disagreeing mainly on the details.

\textit{The Reform of 1965}

The goals or the problems that the actual reform of 1965 was intended to solve were well summarized by Prime-Minister Kosygin in his statement of September 28, 1965 published in the news-paper \textit{Izvestia}. It is necessary to understand these, because they make it clear why the reform was adopted in the first place. To begin with, the factors that necessitated the reform were seen in the increased complexity of economic relations; expansion of the scale of production and capital investments; the necessity dictated by scientific and technological progress to be able to introduce new technology and scientific achievements into production quickly; the requirements of ‘technical standards, quality, durability of goods, and their effective use’ of the ‘present-day scientific-engineering revolution,’ guaranteeing increase in the ‘material well-being of the people’ along with securing high capital accumulation; and, therefore, ‘raising the efficiency of social production as much as possible, saving live and materialized labor, and considerably and steadily increasing returns from capital investments and fixed assets.’\textsuperscript{53} The Prime-minister also noted that the volume of the national income,

\begin{itemize}
\item \textsuperscript{51} Ibid., 214.
\item \textsuperscript{52} Liberman, ‘Plans, Profits, and Bonuses,’’ 83.
\end{itemize}
industrial output, and the rate of growth of labor productivity in industry had declined in recent years and these trends needed to be reversed.\textsuperscript{54}

The problems that the reform was to solve, therefore, were to correct for the unbalanced economic development that gave the priority to the production of the means of production at the expense of consumer goods and agriculture; to eliminate the large number of unfinished or delayed construction projects (new plants, etc.), which would eventually increase the cost of putting those into operation and often made the equipment originally installed obsolete; to speed the introduction of new technological and scientific achievements in the production, which had prior been very slow; expand the production of modern machinery and equipment and better utilize the achievements of foreign technological development; and to better utilize manpower resources in the country.\textsuperscript{55} All these problems could only be solved if centralized planning was complemented by the economic initiative of enterprises:

The economic initiative and rights of enterprises are too narrow and their area of responsibility is insufficient. The cost-accounting system is in many ways a formality. The existing system of material encouragement to industrial personnel does little to interest them in improving the overall results of the work of their enterprises and often operates in contradiction to the interests of the national economy as a whole. (Kosygin 1966, 13)

As a result, the reform of 1965 decreased the number of plan targets given to enterprises from the center to the following eight: ‘the volume of goods to be sold; the main assortment of goods; the wage fund; the sum of profits and the profitability; payments into the budget and allocations from the budget;...the volume of centralized

\textsuperscript{54} Ibid., 7.

\textsuperscript{55} Ibid., 7-13.
capital investments and commissioning of production capacities and fixed assets; the main targets for introducing new technology; the indices for supplying materials and equipment.”56 With time, after certain conditions were to be achieved, the assignment of the wage fund was to be abolished as well.57

To improve the quality of the product a system of state certification was to be introduced.58 To make it easier for enterprises to fulfill their plan targets the planning methods were to be based on “scientifically substantiated norms and technical-economic calculations”59 and the five year plan targets to be presented yearly as well so that enterprises could plan their production better.60

A number of measures were proposed to improve the cost-accounting system. Enterprises were to set up a production development fund that would be financed from their profits and that they would use to finance technical improvements in production.61 Financial resources for capital construction would no longer be distributed to enterprises for free, but would be given in the form of credits; credits would, likewise, replace the free give-away of additional circulating assets.62 A charge for the production assets

56 Ibid., 18-19.
57 Ibid., 18.
58 Ibid., 19.
59 Ibid.
60 Ibid., 20. Prior to the reform, enterprises only received five-year targets; since plans were constantly revised, having just five-year aggregate directives made it more difficult for enterprises to plan the production process.
61 Ibid., 22.
62 Ibid., 23.
allocated to enterprises would be deducted from their profits.63 “In the future, payments for assets will become the most important part of the state’s income, and the importance of other payments, including the turnover tax, will be correspondingly reduced.”64

Finally, the material responsibility for failing to fulfill contractual obligations with other enterprises was to be increased.65

Two other funds were to be established – a fund for material incentives for the personnel and a fund for financing social and cultural undertakings and housing construction, both financed from the enterprise profits to give enterprises incentives to be more profitable.

To reform the price system, which was still envisioned along the lines of the centrally determined prices, a State Committee for Prices was set up. One remark deserves attention – talking about improving the prices Kosygin points out that ‘there can be no question but that retail prices can be revised only along the lines of reducing them.’66 In other words, no consideration was given to the notion of bringing producer and consumer prices closer together.

As was mentioned above, Khruschev, in an attempt to decentralize central economic management, replaced branch ministries with regional economic councils. The 1965 reform reversed the decision and brought branch ministries back to life at the all union, union-republic, and republic levels.

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63 Ibid., 24.
64 Ibid.
65 Ibid., 25.
66 Ibid., 30.
The ministries will plan and control production and deal with issues of technical policy, material and technical supply, financing, labor, and wages. The branch research institutions will be subordinated to them. This will facilitate the enterprises’ production and economic activity, since all the basic issues concerning their production and economic activities will now be settled by a single agency – the ministry. (Kosygin 1966, 33).

It was envisioned that the ministerial staff would be reduced, because a number of functions were to be transferred to the level of enterprise amalgamations. The idea was to let central planning agencies set targets only for the amalgamation overall without giving detailed instructions to individual enterprises, factories, and workshops belonging to amalgamations themselves. The latter were to receive their targets and instructions from the amalgamation management instead. This would reduce the bureaucratic apparatus of the government and would make the planning process more efficient, because the details of the production process would be worked out by the bodies directly involved in it. In some cases amalgamations would also combine research and production units under one roof hoping to improve the speed of introduction of new technology and scientific achievements into the production process.

Finally, in the sphere of material and equipment supply, trade between manufacturing and consuming enterprises, conducted through territorial supply-and-sales centers, was envisioned for the future. In the meantime only some re-organizational changes to the government bodies responsible for the function were proposed.

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67 The process of amalgamating enterprises into bigger units began in the 1960s. Enterprises were combined into what was then called ‘firms.’ Later, ‘firms’ were replaced by production and industrial associations. The latter meant to replace the ministerial departments, glavks, but that process did not begin until 1973.
Achievements of the Reform of 1965

The reform, though conservative by the standard of the other East European countries, was quite far-reaching for the conditions of the Soviet Union, considering the country’s recent history of the Stalinist regime and the rigid economic model that it had created. Its implementation, though, was rather modest and fell short of achieving most of its goals.

The achievements of the reform were probably the most far-reaching at the enterprise level. By 1970, 41,000 industrial enterprises (which accounted for 93 percent of factory production) were switched to the new system.\(^\text{68}\) Katz points out that five years after the reform was introduced ‘“none of the aspects of the reform dealing with the relationship of the individual enterprise to over-all economic planning have been developed significantly.”’\(^\text{69}\) The shortcomings of the reform can be well summarized in the results of a poll of over 200 plant directors cited by Katz:

The largest number of directors (48 percent) cited the material-technical-supply system as the primary problem in their daily operations. Almost 80 percent of the directors responded that there had been no change in this aspect of operations since the reform, while most of the rest reported only slight improvement. The second factor cited was the inadequate size and ineffectiveness of incentive funds, including the fund for development of production. The third most important factor was lack of operating independence and interference from above. Of the more than 200 directors, 56 percent said the increase in their independence since the reform was insignificant, for the most part due to interference from the glavk and ministry. The spheres in which enterprise directors wanted more authority were: labor and wages, 18 percent; capital investment, 44 percent; financing, 35 percent; and pricing, 16 percent. All in all, the similarities of their reactions to the sentiments of directors in the pre-reform period, indeed to those of directors in the Stalinist period, are startling testimony to how little has changed, due to the

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\(^{68}\) Roger Munting, *The Economic Development of the USSR* (Londond & Canberra: Croom Helm, 1982), 153. Munting also points out that the reform was less widespread in the less industrialized republics – Azerbaijan, Kirgizia, Turkmenistan and Armenia (Munting, 153).

conservative manner in which the reform had been carried out. (Katz 1972, 179-180).

Katz further points out that the reform was slowed down not just by the resistance of the bureaucrats and the system, but also by the general re-orientation towards conservatism in the country. He suggests that the tendency could be clearly seen by the domination of conservative ideas in economic conferences, official publications, and even leadership’s speeches.

Gregory and Stuart, likewise, point out that as soon as the managers started displaying more independence, “planners and bureaucrats” began to press for amendments of the reform to restrain the “undesirable’ spontaneous enterprise actions.” The changes that resulted gave more regulatory power back to the central organs in a number of aspects: the flexibility in determining the size of the incentive fund was replaced by more rigid regulations; the distribution of the incentive funds was to become strictly controlled; the production development fund was taken from the control of managers and put under the regulation of the ministries; finally, the number of plan targets given to enterprises was again increased.

The amalgamation of enterprises did not advance and in 1973 a new decree on amalgamations had to be introduced. The traditional system of material supply continued to function. The role of credit did not expand as much as was proposed, and a large number of investment projects continued to be financed from the budget; the 6% interest

\[ \text{Ibid.} \]

\[ \text{Ibid., 180-184.} \]

\[ \text{Gregory and Stuart, Soviet Economic Structure, 406.} \]
charge on capital proved to be so low that it did not bring any real changes to the efficiency of their utilization.

Overall, Gregory and Stuart point out that one cannot assert that things did not change after the reform was introduced, but the changes did not necessarily proceed in accordance with the reform intentions.

The thrust of the 1970s seems to have been toward the improvement of planning methods, for example, the greater emphasis on long-term plans, better norming, increased use of automated methods and computerization, and the like. Decentralization does not seem to be an appropriate characterization, yet the issue of changing the levers or mechanisms through which the economy is manipulated is relevant. Did the economic content of the levers change? One Western critic of the reform could write in 1973 that ‘after seven years of the reform, economic methods, or ‘levers,’ have been effectively converted into administrative ‘levers’ ... as a consequence, centralized planning and administration are even more entrenched...” (Gregory and Stuart 1996, 408.)

**Economic Changes in the 1970s**

Before Mikhail Gorbachev introduced an all-around reform of the system at the end of the 1980s a few more attempts to ‘improve’ the system were undertaken.

In 1973 a formal decision was finally made to base industry on associations (obyedineniya). According to Nove there were different kinds of associations. There were all-union and republic associations, production and science-and-production associations; there were associations, whose enterprises retained independence (i.e. they operated on khozraschet74, had a legal personality, and a bank account) and associations, whose enterprises lost their independence and became merely branch factories or workshops; some, which in other sources are sometimes referred to as industrial associations.

73 Ibid., 406-407.

74 Khozraschet – profit and loss accounting.
replaced ministerial departments.\textsuperscript{75} According to a statistical bulletin of the Soviet Union in 1985 there were 4,378 production and scientific associations that included 18,800 independent enterprises and production units and whose share of industry overall was 50.3\%.\textsuperscript{76}

In 1979 a new decree was introduced titled ‘On Improving Planning and Strengthening the Economic Mechanism’s Influence on Raising the Effectiveness of Production and Quality of Work.’ Individual measures that were to be taken under this decree are not as important for the present analysis as the main course of change proposed, because it demonstrates no real retreat from the previous approach. As Morris Bornstein summarizes it:

> The aims of PIEM\textsuperscript{77} are to increase output; to reduce its cost, and particularly the use of materials and fuels; to improve quality, including through the introduction of new products; to secure the timely delivery of output according to the contracted product-mix; and to cut construction time and costs. PIEM pursues these goals through a variety of measures affecting planning, performance indicators, incentives, and finance. PIEM does not entail decentralization in any of the three senses … ‘administrative’, ‘economic’, or ‘internal enterprise management’. Instead, PIEM is an effort to strengthen the effective control by central planning agencies and ministries over the operations and results of the Soviet economy. (Bornstein 1985, 23.)

At the end, all these measures fell short of improving the situation so much so that the Soviet economy was normally perceived to be in a state of crisis in the beginning of the 1980s.\textsuperscript{78}


\textsuperscript{76} Gosudarstvenni Komitet SSSR po Statistike, Narodnoe Khozyaistvo SSSR v 1989 (Moskva: ‘Finansi i Statistika, 1990), 331.

\textsuperscript{77} The decree is often cited under the name of PIEM.
After the seventies, the Soviet economy demonstrated increasing characteristics of crisis. Plan targets were seldom fulfilled, growth continued to diminish, consumers found their level of living stagnating, and producers found both labor and capital more scarce. One can certainly speak of a crisis in the years from 1979 to 1982 as poor weather conditions yielded near disaster at harvest time, the costs of economic development in the east soared, and investment policies and programs failed to keep the aging capital stock from continuing deterioration. The labor force during that period drifted toward demoralization and disengagement; effort and creativity gravitated toward the second economy. (Bryson 1995, 35).

These were the conditions in which Mikhael Gorbachev assumed power in 1985.

**The Performance of the Soviet Economic Model from 1928 to 1985**

As much as the collapse of the Soviet system seems to have been unavoidable to a modern observer, its impressive performance in the first decades gave reasons to its contemporaries to believe, with as much rigor, in its superiority over other systems.

“From about one-quarter the size of the U.S. economy in 1928, the Soviet economy climbed to about 40 percent in 1955, 50 percent in 1965, and about 60 percent in 1977.”

The achievements of the system were so impressive that from the 1950s until probably the 1970s the main question of concern for Soviet and Western observers alike was:

When would the Soviet Union catch up and overtake the United States? The growth of Soviet Gross National Product (GNP) attained an impressive rate of 5.8 percent between 1928 and 1940, 5.7 percent between 1950 and 1960, and 5.2 percent between 1960 and 1970 (Table 1). At the end, though, the system could not sustain the high rate of growth

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80 I have omitted the years of 1940-1950 because the country’s normal rate of development was interrupted by World War II.
and it slowly started to deteriorate. By 1985 when Mikhail Gorbachev assumed power the rate of growth slowed down to 2 percent between 1980 and 1985 (Table 1).

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<td>GNP</td>
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<td>GNP per capita</td>
<td>3.6</td>
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Source: Ofer 1987, 1778.

Reforms under Mikhail Gorbachev

Mikhail Gorbachev’s term in office proceeded through two phases. The goal of the first phase, which lasted from 1985 to 1989, was to improve the old planning mechanism. The second phase, from 1989 to 1991, was an attempt to change the mechanism by introducing a mixed economy, which, nevertheless, came too late and was eventually overpowered by the political processes of the country’s final disintegration.

According to Mau, the premise behind Gorbachev’s first policies was not new – they were devised in order to further increase ‘the welfare of the people’ and improve ‘the conditions of their spiritual and material life,” 81 which, in turn, could not have been achieved without achieving a high rate of economic growth and improving the economic mechanism. What was novel in Gorbachev’s approach was an additional focus on the ‘human factor’ that had never been incorporated into the reform process before. ‘Gorbachev and his allies began to realize that the country’s economic malaise was intrinsically linked to a deeper moral, social and cultural crisis. To decrease the alienation
between government and society, a prerequisite of economic reform, Soviet reformers understood that they must first overcome public apathy and inertia. Hence, the policies that are commonly known under the name of ‘perestroika’ were put forward with the following key principles:

1. Acceleration (uskorenie) – the need to include dynamism in the development of productive forces by concentrating investment resources on the machine-building sectors;
2. Perestroika – the transformation of production relations, changing the social and economic organization of the late Soviet system;
3. The human factor – the need to humanize the system of social relations, to overcome the one-sided technocratic approach to solving economic and production tasks. It was this thesis that led somewhat later to the ideas of glasnost’ and democratization;
4. ‘Integral socialism’ – the attempt at a theoretical explanation of the character of the transformation begun, on the understanding that the existing system of social relations could and must be transformed sufficiently deeply to ensure the passage of socialism to a new stage of ‘development’, but without changing the very essence of the socialist system of economic management (which was already ‘mature’). (Mau 1995, 389-390)

The approach to reforming the system during these first years, thus, was still predominantly confined to the ideas of improving the existing mechanism, which, at the end, did not play a big role in changing the economic mechanism or for that matter in its collapse. Hanson points out that even the main legislation such as the decree of January 1987 allowing joint-ventures in the Soviet Union, the law on the state enterprise of June 1987, and the law on cooperatives of June 1988, in reality were one way or another unworkable:

Central planning of output, centralized supply allocation and central control of prices remained in place. Within those arrangements, any foreign joint ventures

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faced enormous difficulty in functioning; the autonomy of state enterprises was largely fictitious, and unplanned activities of cooperatives was likely to produce transactions not designed to meet the wishes of consumers but harnessed to plan evasion by state enterprises. (Hanson 2003, 196)

Other changes during that time proceeded in the same vein. For example, the banking legislation of 1988 simply broke up the monolith banking system into six banks – the State Bank, the savings bank, the industrial construction bank, the agricultural bank, the housing and social infrastructure bank, and the bank for foreign economic relations, but did not change their functions.

The biggest innovations of the time that probably opened the Pandora’s box of the Soviet Union’s destruction were the policy of glasnost and the political perestroika. As a result of these policies at the end of the 1980s the Berlin Wall came down, the countries of Central East Europe were electing non-communist or coalition governments, people in the Soviet Union were rallying for political democracy, leaders of the Union republics were demonstrating independence from the Union. By 1989 the Soviet economy had turned into “a centrally planned economy with the center knocked-out.”

From 1989 to 1991 there were a number of attempts to restore the Soviet economy. A myriad of quite far-reaching legislation was adopted – legislation on leasing of assets, on land, on property, on anti-monopoly policy, on currency, etc., and a number of reform programs were proposed. It was during this time that the first price reform was enacted setting prices for some categories of goods free. The only problem was that all these measure were coming too late: the Soviet Union was dissolving and the

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republics were no longer cooperating. One by one they were introducing their own policies. Russia in June of 1990 declared its sovereignty and in October passed a law that put all the assets on its territory under Russian, and not Soviet, control. In the summer of 1991, before the Union was officially disintegrated, Russia elected Boris Yeltsin as its first president. In other words, the Soviet Union found itself in a ‘systemic vacuum’ in the last two years of its existence.

There is no need for a detailed analysis of the ‘last day’ economic reforms of the Soviet Union, because they no longer played an influential role for the development of the Russian economy. Economic reforms introduced by the Russian government took precedence as soon as the Union collapsed.

**Conclusion**

The goal of the historical overview in this chapter was to acquaint the reader with the origins of what later came to be known as the Soviet Economic Model and attempts to reform the model, for four reasons. First, I wanted to demonstrate that the Communist takeover in 1917 and the subsequent developments had been born out of the historical situation in the country and not just as an attempt of some ideologically driven group to instill communism. Second, I wanted to point out that the Soviet model, likewise, did not just come about from an ideological blueprint, but was created for a combination of political and economic reasons. Third, it was necessary to demonstrate that in reality there was no unified Marxist ideology that stood behind all the economic changes in the Soviet Union and that the ideology was often made to fit political and economic

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84 For a good summary, see Hanson, *The Rise and Fall of the Soviet Economy*, 222-234.
circumstances. This proved to be a useful tool for introducing changes not only in the Soviet Union, but also in other countries of the Soviet bloc, by the means of constantly reanalyzing Marxist doctrine and showing that each newly introduced political or economic element fit right in. It, so to speak, gave the rigid system a feature of ‘flexibility.’ Fourth, the analysis of the reforms of the model needed to be presented to show the stark contrast with the economic reform process in Hungary, which is the subject of the next chapter.

85 Ibid., 228.
CHAPTER 3

HUNGARIAN ECONOMIC DEVELOPMENT

The general perception of Hungarian development, or any other Soviet satellite nation for that matter, after World War II is that every policy decision since the Soviet troops ‘liberated’ the countries was dictated by the Soviet Union with no room left for dissent or disagreement. In the Hungarian case, the policies of collectivization and nationalization carried out in the 1940s are cited as an example of the strong Soviet influence, with the invasion of the country by the Soviet troops in 1956 to halt the counter-revolution signifying the peak of the Soviet domination. A closer look at the historical developments of the time, though, paints a more complex picture. It appears that (1) the aftermath of World War II played a major role not only in the Soviet Union’s ability to keep the region (and the country) under control at that time, but also in Hungary’s susceptibility to it; (2) reform and counter-reform decisions in the forty years of communist rule in Hungary were influenced by a myriad of factors and Soviet influence or rather an international situation was often just one of them; (3) the common perception that the Hungarian politicians and economists could introduce market elements into their system only when the Soviets allowed it overlooks the fact that the debate between the pro-reformists and their opposition in Hungary was a continuous, ever-present process that tilted one way or the other depending on domestic and international circumstances; (4) the economic development of the country did not

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1 During Communist times, the advancement of Soviet troops onto the territory of Central East Europe making the German army retreat during World War II was presented as the liberation of those
abruptly stop and take a different turn in 1989, but has been a continuous process beginning with changes introduced before 1989 and gradually leading to the events of the 1990s.

Setting the Stage: Hungary after World War II

Policies of radical nationalization, collectivization, and, subsequently, Sovietization marked the first decade of Hungary’s reconstruction after World War II. These developments are normally understood as the steps that Hungary had to take under the pressure of the occupying Soviet power. The initial reform initiatives, however, were not a simple manifestation of Soviet control. “The radical reform of the economy tied in closely with the war damage the country had suffered and the heavy burdens of reconstruction and reparation payments.” Experts of the Hungarian General Credit Bank (Magyar Általános Hitelbank) were already calling for ‘stronger government intervention’ in the summer of 1945, arguing that ‘direction of production and consumption and compulsory economic measures of economic control’ would be needed territories by the Soviet Union. After Communism collapsed and many of its aspects started to be revisited, here, too, opinions became critical of just how much freedom the Soviet Union brought to those countries.

2 In the first years after the war every formerly ‘hostile’ country had to stay under the control of an Allied Control Commission, which was headed in each case by one of the allied powers. In Hungary, the Commission, responsible for denazification and democratization of the country, was headed by the Soviet Union. Originally, the Soviet troops were to stay in the country only until the peace agreement was signed, but the later political developments, which will be discussed further in the thesis, kept them there longer.

3 When the war came to an end, Hungary found itself in a devastating situation with the total war damage of twice the amount of its national income in 1938 and $300 million in reparation payments delivered in goods to the Soviet Union, Czechoslovakia, and Yugoslavia. “The war destroyed about 40 percent of the nation’s wealth. Homes were ruined, one-third of the bridges were blown up (including all of the bridges over the Danube in Budapest), and 70 percent of the railroad rolling stock was taken out of the country. Ninety percent of Hungary’s industrial companies suffered substantial losses, and most of the country’s livestock was taken away.” (Gábor Révész, Perestroika in Eastern Europe: Hungary’s Economic Transformation, 1945-1988 (Boulder, San Francisco, & London: Westview Press, 1990), 23)
for several years.” In other words, the circumstances of the post-war devastation within the country called for and eventually led to acceptance of some radical measures. In fact, even most of the West European countries took radical steps at that time, like keeping the high level of state control over production and distribution, while some (Great Britain and France) even carried out extensive policies of nationalization.  

Many features of popular revolutionary radicalism became incorporated into the democratic transformation of the country [Hungary]. The communists and other left-wing forces were able to insist on these, since Soviet support and political pressure kept them in power despite their electoral defeat. However, there is no denying that the Soviet pressure coincided with a wave of radicalism in post-war Europe, which allowed communist parties to join the coalition governments of several leading European countries. (Berend and Csató 2001, 262)

Likewise, the first radical land reform carried out in March of 1945 as a result of which 75,000 estates and 3.2 million hectares (35% of the country’s territory) were confiscated or expropriated was prompted by social needs and demands, rather than the Soviet pressure, after ‘many villages, seething with discontent, did not wait for government measures and began parceling out the great estates on their own initiative.”

“The land reform was a genuine revolution: first because it rearranged the structure of Hungarian society, and second because it was carried out by the people who worked the

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5 Ibid.

6 The first democratic election, held in November of 1945, brought victory to the Smallholders’ Party, which, according to Berend and Csató “had become an umbrella for those opposed to a shift towards communism.” (260) Under the pressure from the Soviet Union, though, some important posts still went to Communists and a coalition government was formed.

land. Despite hesitation in some places, the peasants generally accepted the land as their due.”

The first waves of nationalization began in similar circumstances. From the end of the war the state was the only entity capable of financing the reconstruction program and reparation shipments. “The factories and the banks had empty coffers. According to the balance sheets of the big banks on December 31, 1945, their revenues could cover only 5 per cent of their expenditures, while 91 per cent of their inward cash flows consisted of loans from the National Bank. In practice, financing of the economy had become a state function, performed through the National Bank.” As a result, the first nationalization steps that began with the nationalization of coal-mines and auxiliary plants in December of 1945, right after Great Britain nationalized its coal-mines, were demanded by economic necessity. “The people had no objection to the nationalization of the major industries and banks. Such measures were deemed necessary, and they were supported by the workers and the progressive left wing and more or less by the democratic parties as well.”

One cannot deny that the Soviet Union manipulated the situation in the country to promote its own interests, but it would be an overstatement to assume that it unilaterally directed the course of the events during those years.

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8 Révész, Perestroika, 24. About 60% of the land was distributed among peasants; the rest was used to set up state or cooperative enterprises (23).

9 Berend and Csató, Evolution of the Hungarian Economy, 264.

10 Révész, Perestroika, 26.
When Hungary was ‘liberated’ the Hungarian communist party consisted of only a ‘handful’ of members.\textsuperscript{11} Even though its membership grew quite rapidly from 30,000 members in February of 1945 to a half of a million by the end of 1945, it won only 17\% of the votes in the first free national elections that were held in November of 1945.\textsuperscript{12} It probably would not have risen to power as quickly as it did by 1948 without the support of the Soviet Union, but it appears that its destiny was still dependent on more than the Soviet will to dominate. ‘The party’s prospects depended on such factors as Soviet presence, the course of inter-Allied relations and, inside Hungary, on its own political skill and on the reaction of the people.’\textsuperscript{13} The Soviet presence aided the party in a number of ways. First, the Soviets provided financial and other assistance to the party – ‘they gave it material assistance (food for distribution, transport, a press and newsprint)....The Communist Party...was provided with offices, lodging, food and even clothing by the Russians. In all fairness, however, the Soviets also rendered aid to the Communists’ political partners and the population at large.’\textsuperscript{14} Second, the Soviet authorities helped the party to gradually eliminate its opposition through pressure, intimidation, and charges of conspiracy.\textsuperscript{15}

\textsuperscript{11} Since the communist party had been outlawed by the previous regime, a large number of communists had fled to Moscow to avoid repression, and those who stayed had to go underground. It is not clear just how many underground members the Hungarian communist party had (3,000 people seems to be the highest estimate), but the number was not large (see Miklós Molnár, \textit{From Béla Kun to János Kádár: Seventy Years of Hungarian Communism}, trans. Arnold J. Pomerans (New York: Berg, 1990), 100.) When the party was legalized, after the ‘liberation’, some of the communists that had lived in Moscow returned to Hungary.

\textsuperscript{12} Molnár, \textit{From Béla Kun to János Kádár}, 105, 108.

\textsuperscript{13} Ibid., 101.

\textsuperscript{14} Ibid., 110.
Domestically, the party attracted people for its novelty representing a new “alternative that many Hungarians of the younger generation were willing to try” and its image of an all-Hungarian front fighting for a new democratic Hungary representing all the people – “a party of the working class and yet of the whole nation, revolutionary yet moderate.” During those years, they presented themselves not as a Marxist-Leninist proletarian party, but as a national movement even casting aside the famous slogan of the ‘dictatorship of the proletariat.’

There is debate regarding just how much influence the international events that happened next had on the country’s future. Some historians believe that the decisive point in the country’s political and economic development that led its destiny Eastward into the Soviet empire was the change in the great power relations:

Although Soviet pressure and communist policy in 1945-47 smoothed the way for the later development of a socialist state, there was no sudden change until 1947-8. Stalin, still intent on maintaining the wartime system of alliances, was not yet concerned with open Sovietization of Central and Eastern Europe during those years. It was still unclear whether Stalin wanted to add the countries in the region freed by Soviet troops to its empire, as a buffer zone, or whether he would be content with ‘Finlandization’ – demanding full loyalty in foreign policy while leaving the internal social system undisturbed. As so often before, the fate of the region and Hungary depended on great-power relations. The advancing Cold War brought a chain of mutual suspicions and dissention, with consequent security-maximizing efforts leading to aggressive steps that bred further insecurity and antagonism and undermined security. The outcome was an open collapse of the alliance system in 1947 - 48 and a new, Soviet-American confrontation. As a French historian of the Cold War pointed out, hitherto there had been an alternative to Soviet rule in Eastern Europe. (Berend and Csató 2001, 271.)

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15 Ibid., 110-114. This approach of gradual, step-by-step elimination of the opposition became known as the ‘Salami tactic’ – the opposition was gradually sliced off until it could no longer form a coherent movement.

16 Ibid., 116.

17 Ibid., 117.
As the Cold War broke out and the Truman Doctrine of containing Soviet influence came out, a peace treaty was signed and ratified that originally was to give Hungary full sovereignty and dismiss the Allied Control Commission, but at the end allowed the Soviet troops to stay in the country to keep contact with the Soviet zone of occupation in Austria. “Extending the occupation as the Cold War deepened effectively decided the country’s political future.”

Yet others argue that the outbreak of the Cold War did not radically alter the course of events, but rather created the ‘right’ circumstances for the communist ‘takeover’:

The ‘theory of circumstances’ put forward by some American revisionist historians, who argue that the Kremlin’s ‘satellization’ of Eastern Europe was nothing but a response to American acts of hostility, has the ring of being as false as the theory of premeditation. Stalin and his advisers ‘premeditated’ and ‘planned’ just one thing: not an inch of conquered territory in Europe must be allowed to escape their net. This is a factor, incidentally, which also explains the Finnish exception. For the rest, the precise moment and the form of the seizure of power hinged very largely on a combination of external and internal circumstances. Instead of imagining a universal scenario written by an omniscient and machiavellian Stalin, we would do better to consider that the Soviets envisaged and elaborated several scenarios with a view to securing an optimal hold on each of the countries concerned.

...the Cold War as a global confrontation made no more than a marginal impact on Hungary. While it is true that the country did not fall definitively into the Soviet camp until the famous ‘turning-point’ of 1948 – that is until the period of the great clashes around the Truman Doctrine, the Marshall Plan and the Berlin crisis – it is equally true that by that stage the signposts were already in position.

These signposts, though clearly perceive by British and American diplomats, elicited no energetic reactions from London or Washington. The British had abandoned Hungary to its fate well before Yalta; the Americans had never seen Hungary as a political counter. By all accounts, the policy of containment and the Marshall Plan did nothing to change this situation. No one lifted a little finger to try to save Hungary’s pluralist democracy. (Molnár 1990, 135-136.)

By the same token, Molnár argues that the image of an all-inclusive pluralist communist party was just a “wait-and-see” policy that the Hungarian communists had adopted waiting for the ‘right’ time to establish the ‘dictatorship of the proletariat’. 19

Regardless of which approach one adopts, the fact remains that the international situation one way or another – either by opening the window of opportunity or by demanding urgent actions – facilitated the change in the domestic political strategy of the party. From then on the Hungarian communist party abandoned the pluralist approach, started consolidating its power more aggressively, became the sole political force within a year and moved to ‘establish’ the ‘dictatorship of the proletariat.’

With that the rapid Sovietization of the country began. In 1948 the banking system was restructured to mirror the Soviet banking system. A massive collectivization campaign was introduced. As a result, the proportion of peasants belonging to cooperatives increased from two in 1949 to twenty-five in 1953. 20 The nationalization of all Hungarian firms with more than a hundred employees was carried out in March of 1948; in December of 1949 all firms employing more than 10 people were nationalized. 21 The one-party system was established in 1949. By the beginning of the 1950s the private sector practically ceased to exist. 22 The Communist party came under direct control of the Soviet Union with Stalin and the Politburo of the Bolschevik Party appointing the leading

19 Molnár, From Béla Kun to János Kádár, 135.

20 Révész, Perestroika, 36. A large number of peasants left their villages altogether instead of joining cooperatives.


22 Ibid., 275.
posts, which led to the replacement of the majority of the opposition party leaders.\textsuperscript{23} The country’s economic program was dictated by the Soviet Union; the five-year plan system was initiated.\textsuperscript{24} Even the country’s police became directly subordinated to the NKVD (later the KGB).\textsuperscript{25} “The Sovietization of the country extended to formalities such as the national coat of arms (altered along Soviet lines), arts policy, the education structure and syllabus, the press, even national holidays and state honors and decorations. Hungary had lost its independence.”\textsuperscript{26} In 1949 the borders were literally closed and the flow of information was halted; any attempts to build a different version of socialism in the region was severely prosecuted.\textsuperscript{27}

Berend argues, however, that even in those circumstances viewing the changes of the time only as a result of Soviet coercion is still insufficient. According to the author, the main goals of the Hungarian development at the time were to industrialize the country and speed up the process of capital accumulation.\textsuperscript{28} The Soviet economic experiment to that date was the only example of the successful accomplishment of these two goals in a short period of time, which also withstood the test of a war.

All these factors certainly contributed to the Hungarian government’s decision to adapt the Soviet model rather than seek new paths. This statement sounds like a euphemism, because one might well ask whether the move by the Hungarian government was a decision at all, since it was taken under very strong Stalinist pressure under the conditions pertaining in the international communist

\begin{itemize}
\item \textsuperscript{23} Ibid., 273, 277.
\item \textsuperscript{24} Ibid., 277, 280-281.
\item \textsuperscript{25} Ibid., 277.
\item \textsuperscript{26} Ibid., 277.
\item \textsuperscript{27} Ibid., 278 – 279.
\end{itemize}
movement at that time. That fact is well known, but nevertheless it would be a
gross oversimplification in the opposite direction to regard this move as
compulsory emulation. One indication of the appeal that the Soviet model had is
its adoption during those years by the Yugoslav and Chinese revolutions, even
though they were following a decidedly independent course. (Berend 1990, 7)
The conviction that the Third World War was to break out in a few years, upheld by the
Soviet leadership, provided further ‘justification’ for adopting the Soviet economic
mechanism with its emphasis on building a self-sufficient state regulated economy that
could withstand the demands of war.

Overlooking the fact that the international situation and political and economic
circumstances in Hungary after the war contributed to country’s susceptibility to adopt
the Soviet type economic model confines the understanding of the country’s development
to the framework of a simple weak-strong state dichotomy and the realm of politics. As a
result, as long as the framework remains – that is as long as the Soviet domination is a
variable, the importance of any other economic developments is diminished, because they
are believed to be secondary. Such an approach deprives the countries of Central East
Europe of any kind of uniqueness in their historical development. In the long run, it leads
to an oversimplified understanding of their economic development and its consequences.

Hungarian development after the end of the 1940s is always viewed in light of the
political developments described above. The institutional structures introduced by the
Soviet Union at the time are taken to have lasted until the Iron Curtain fell in 1989. The
attempts at reforming the command economic system in Hungary after the 1940s’
changes are not taken seriously, because they did not attempt to alter the system’s basic
principles. As a result, the understanding that the countries of Central and Eastern Europe
were at the same starting point when the transition to a full market economy began is
taken as given. As I argue in Chapter 4 this was not the case.

**Hungary after Stalin**

After Stalin died in 1953 the new Soviet leadership relaxed their political line and
announced their commitment to the so-called *New Course*. ‘This New Course meant
softening the dictatorship, emphasizing ‘socialist legality,’ reviewing earlier fabricated
trials, halting the forcible collectivization of agriculture, allowing withdrawals from
existing cooperative farms, and a policy of improving goods supplies to the
population.’ 29 For Hungary the new course allegedly started when in 1953 the leaders of
the communist party were summoned ‘in disgrace’ to Moscow only to be criticized for
‘imposing Stalinism on Hungary’ and ordered to ‘correct their errors’ right down the
line.’ 30 The visit ended with the demotion of Mátiás Rákosi – the forefather of Stalinism
in Hungary, and with his replacement by reform oriented Imre Nagy. Already six months
into Nagy’s leadership changes could be seen in all aspects of life: ‘the peasantry had had
its burdens reduced, 8,000 tradesmen had been given permission to reopen their
workshops, internment camps had been abolished, persons forcibly moved to various
parts of the country had been authorized to return and a number, many of them elderly,
were already back in their homes in Budapest. Nagy also announced a rise in the standard
of living and the resumption of economic relations with capitalist countries.’ 31

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30 Molnár, *From Béla Kun to János Kádár*, 155.

31 Ibid., 158.
This came at the time when the Hungarian economy was slipping into a deep crisis induced by the defects of the newly imposed system. The first five-year plan with its emphasis on fast accumulation and industrialization to quickly create a self-sufficient war economy was becoming impossible to fulfill.\textsuperscript{32} There was a chronic shortage of consumer goods.\textsuperscript{33} Enterprises were producing a large amount of spoiled, unusable goods, because they only had to meet production quotas in numbers and not in quality.\textsuperscript{34} A large amount of resources were frozen in unfinished investment projects.\textsuperscript{35} It was also becoming obvious that the system was detrimental to long term technological development, quality improvement, and productivity level, because it did not provide any incentives for enterprises to be more efficient. The system’s shortcomings were compensated by a myriad of directives and orders; these only resulted in the increase in the country’s bureaucratic apparatus, but not in the efficiency of the economy.\textsuperscript{36} The economic crisis was exacerbated by the political unrest that was a result of constant purges, prosecutions, forced collectivization, and the confiscation of land in the villages.

It is important to note here that the economic policy pursued in the 1940s had some positive consequences as well. Hungary’s ‘national income and the volume of products turned out for consumption in 1948-1949 were equal to or somewhat greater

\begin{footnotesize}
\begin{enumerate}
\item Ibid.
\item Ibid.
\item Ibid.
\item According to Berend, the proportion of white-collar to manual workers in industry went from 1 to 9 in 1941 to 1 to 4 in 1953. Berend, \textit{The Hungarian Economic Reforms}, 11.
\end{enumerate}
\end{footnotesize}
than in 1938;"\(^{37}\) manufacturing output exceeded its pre-war level by 1949, which in some cases was more successful than in some West European countries.\(^{38}\) Much of the economic disequilibrium of the 1950s really resulted not just from the shortcomings of the system, but from the unrealistic targets of the first five year plan (1950 - 1954) and the strategies adopted to fulfil it.

The original target for national income was a 63 percent increase over the plan period, or 10 percent growth yearly. The revision [in 1951] called for 130 percent growth, or 18 percent yearly... The share of national income to be budgeted for accumulation was to rise from the 18-20 percent of 1949 – a figure that was already artificially high – to 35 percent, of which industry was to receive half. (Even at times of rapid growth, net accumulation is generally no higher than 20-25 percent, and industry's share during periods of industrialization is normally no more than 20-30 percent.) (Révész 1990, 33)

Such high level of accumulation could only be achieved at the expense of the population and personal consumption. Compulsory produce deliveries at a very low price were imposed on peasants; prices were increased at a higher rate than wages to curb personal consumption.\(^{39}\) Structurally, the goal of the plan was rapid industrial development with the emphasis on heavy industry to prepare the country’s economy for the Third World War. This resulted in neglect of all the other sectors. Hence, the disequilibrium and the problems mentioned above.

It is hard to assess what the future of the country would have been if Stalin’s death did not take place in 1953 and the new Soviet line was not introduced. Nevertheless, the discontent with the system was felt all throughout the region and the

\(^{37}\) Révész, Perestroika, 28.

\(^{38}\) Ibid.

\(^{39}\) Berend and Csató, Evolution of the Hungarian Economy, 282.
“thaw” in the Soviet policy probably provided the fertile ground for opinions to be more or less openly voiced.

In Hungary the first systematic theoretical criticisms of the system appeared at the end of 1954. A monthly magazine Közgazdasági Szemle [Economics Review] that had been previously shut down was re-launched and became a forum for the reform debate. The first issue published a work criticizing the drive for creating a self-sufficient economy based on import-substitution and attacking the price policy. Similar debates and articles appeared in different venues as well. The first comprehensive reform proposal was published in the Közgazdasági Szemle in December of 1954 by Péter György.

‘The main methodological mistake in our leadership,’ according to György Péter, ‘is excessive centralization, bureaucracy.... We try to carry out economic tasks... mainly through the mass issue of central directives.’ Control by means of authority, he argued, should give way to ‘goods [and market] relations between enterprises.... and between enterprises and consumers.’ The incentive for enterprises should be determined by profit and firms should ‘pay interest’ on investment funds instead of being presented with them by budget. (Berend and Csató 2001, 299)

The author maintained that the proposed principles of ‘gain, profit, supply, and demand” corresponded to the same principles in the capitalist economy, but in the case of Hungary would be used ‘for laying the socialist foundations” of the economy. In the same line, János Kornai in his dissertation in 1956 stipulated that socialist economy based on state

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41 Ibid.

42 Ibid., 24.
ownership could operate under “various economic mechanisms” which should be subjected to the “compulsion of the economy” instead of the directives.  

Politically, the pro-reform attitudes manifested themselves in ‘many-faceted socialism.’ Imre Nagy wrote

The principle has been established historically that, in addition to the unity accepted in the chief and basic questions of insuring the victory of socialism, various forms and methods may be applied for solving concrete problems in the building of socialism...

To apply Marxism-Leninism to other countries by upholding its principles without modification can cause only the distortion or stagnation of Marxism. It is therefore an improper, unscientific, and anti-Marxist method to copy or mechanically ape the application of scientific socialism. By enriching Marxism-Leninism with new tenets and applying them practically on the basis of experiences gained in the various countries, after careful and intensive examination, these principles can be utilized bravely in conformity with the characteristic local situations.

In this sense, ‘Hungarian socialism,’ which was meant to be a disparaging label for the independent application of scientific socialism, is in effect nothing else but a type of Hungarian socialism, in other words, the application of Marxism-Leninism to specific Hungarian situations. (Nagy 1957, 12-14.)

From the outset of Nagy’s nomination, Mátiás Rákosi, representing the ‘conservative’ side of the party took actions to undermine Nagy’s position. Believing that Nagy owed his nomination to Beria’s policies in the Soviet Union, Rákosi went into an open full-blown attack of Nagy after Beria was dismissed. Soon after, the turmoil within the Soviet leadership opened a window of opportunity for Rákosi to completely dismiss Nagy and quiet the new ideas.

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44 L. P. Beria had held various high positions within the party while Stalin was in power. After Stalin died, in March of 1953, Beria became the first deputy Prime Minister and the minister of internal affairs. He introduced various policies softening and liberalizing the regime. On June of 1953 he was arrested and dismissed from the party by an internal coup; in December of the same year he was accused of treason and executed the same day the verdict was read to him.
The debate was silenced for the time being; in Spring of 1955 the Közgazdasági Szemle even published an editorial self-critique accusing themselves of publishing incorrect, non-Marxist views.\textsuperscript{45} The first changes introduced to the system by the government were rather modest and insignificant. They aimed at somewhat shrinking the bureaucratic apparatus and reducing the number of compulsory plan indicators.\textsuperscript{46}

This pro- and anti-reform debate within the party and outside would become the characteristic feature of the Hungarian development from then on, which was absent in the Soviet Union. One side, which I label ‘conservative’ from now on, believed that the shortcomings of the system did not lie in the economic mechanism, but rather in its implementation. The other, the pro-reform side, connected the economic problems to the mechanism itself, as was previously shown through the ideas of Péter György and János Kornai, and advocated bringing market forces into the game.

Finally, the important overall lesson is that the major debate did not occur between the Soviet Union and Hungary as one would be led to assume if one understood the history of Central East Europe after World War II as the product of Soviet domination. The debate occurred between the conservative and pro-reform sides within the country, both of which at different times exploited the international situation to further their agenda.

\textsuperscript{45} Berend, The Hungarian Economic Reforms, 28.
The events of 1956, when a peaceful student demonstration to show solidarity with the Polish uprising turned into a revolution, had a dual effect on the country’s further development. On one hand it did confirm that the Soviet Union was still reluctant to let the country out of its control and was prepared to defend its ‘territory’ with military intervention. On the other hand, it demonstrated a strong need for a change.

It is a historical paradox that the very shortcomings of the timid, partial reforms beginning in 1953 led to the outbreak of open revolution. The armed suppression of that revolution, on the other hand, made radical reforms essential. The Kádár regime could not simply continue where Rákosi and Gerö had left off. After a period of stabilization by brutal, merciless means, the system underwent a succession of pragmatic reforms. These came in successive waves, broken by halts and setbacks, but leading ultimately to a transformation of the Hungarian system of state socialism. (Berend and Csató 2001, 297).

The international situation again provided a window of opportunity for the Hungarian leadership: the de-Stalinization course taken by the Soviet Union in 1956 and the reforms introduced in the country meant that there was no return to the full dictatorship; a number of other communist countries started following the Yugoslav example of an ‘alternative’ road to communism; and an open confrontation between China and the Soviet Union further undermined the image of an all monolithic Soviet bloc.48

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47 After the communist regime collapsed in Hungary, the uprising of 1956 came to be identified as a revolution. During communism, though, it was known as a counter-revolution, because it wanted to overturn the communist regime.


Even though the full-scale economic reforms in Hungary were not to be introduced for another ten years, the years after the revolution prepared the ground for future radical changes. Right after the new leadership was installed in 1956 the party issued a resolution promising to introduce a new economic policy “adequate to the new situation” and harshly criticizing the previous leadership for “copying the Soviet example mechanically,” “relegating national interest,” and seriously offending “the national and patriotic feelings of the Hungarian people.” 49 The dual pledge of the new government to both the continuity of the socialist course and to bringing changes raised serious debates between the pro-reformist and the conservative sides of the party. The first emphasized the need for change and, thus, radical reforms; the second - continuity and, thus, piecemeal modifications of the existing system. The latter won the debate at the end of the 1950s, but the former prepared the theoretical foundation for the comprehensive reforms that were to be implemented in the 1960s. More importantly, the heated public debate that sprung out of this confrontation and eventually spread from economic journals to daily newspapers demonstrated that an open discussion was possible. 50 “Although the partial and gradual transformation of the planning system at the turn of 1956 and 1957 did mean that the Hungarian economy had embarked upon a path of change, far more important than the actual results of this was its effect on attitudes and


50 See Ibid, Chapter 8.
the experiences it provided. It proved that the economic mechanism was no longer a taboo subject and that it could be corrected.”

Let us look at the reform proposals and the reasons they were shuffled aside for the next ten years. Days after the new government announced its dedication to restructuring the system, a network of committees was set up (total of about 200 people) to devise a reform proposal headed by György Péter (recall that he was among the first to raise questions regarding the working of the economic mechanism in 1954) and Professor István Varga. The final draft of the reform proposal submitted to the government in June of 1957, while reiterating its commitment to the centrally controlled socialist economy, proposed changes to the planning mechanism, prices, and investment structure. It preserved the yearly plans based on long-range national economic objectives, but it rejected the notion of breaking down the yearly plan into company level plans. Enterprises were to become independent, and the government was to supervise the fulfillment of the plan through indirect means. Direct control of ministries and other agencies was to be abolished; supra-company trusts and associations were to be set up to serve as liaisons between enterprises and the government. Ministries that controlled enterprises were to be combined in a single Ministry for Industry, “which was to act as an industrial policy-making and supervisory body.” The mechanism of profit-sharing

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51 Ibid., 77-78.

52 István Varga was a prominent political and economic figure before, during, and after World War II, but was excluded from politics in the 1950s. (See Berend, The Hungarian Economic Reforms, 35.)

53 Berend, The Hungarian Economic Reforms, 47.

54 Ibid.

55 Ibid., 37.
through which enterprises were to keep a share of the profit from the sale of their product would provide an incentive for enterprises to be efficient while in the meantime contributing to national economic production. The price system was to be reformed so that the producer prices actually reflected the costs involved in the production process. Although fixed prices and price ceilings were to remain in some areas, a larger proportion of goods was to be sold at free market prices.\textsuperscript{57} Moreover, the export and import prices were to reflect the world-prices through the use of real exchange rates.\textsuperscript{58} The government would no longer provide investment resources to companies for free; enterprises were to pay a fee for utilizing fixed assets and were to pay interest for financial assets.\textsuperscript{59}

The initial suggestions presented at the committees’ deliberations dealt away with compulsory plan directives all together, went much further in establishing free market prices and in the use of various mechanisms of economic policy such as credit for the central direction of enterprises.\textsuperscript{60} A compromise that was actualized in the final proposal had to be made if the idea of a reform in general was to be sold at all.

Here it should be remembered that the reform proposals were being devised under extremely difficult historical circumstances, so that they were influenced not only by the level (and the weaknesses) of theoretical understanding but by tactical concessions to make them more acceptable. Those devising the proposal thought the dysfunctions of the economy could easily be cured by a partial granting of autonomy to companies and even more partial introduction of market prices. Moreover (and in this they were perfectly right in practice), the committee considered that reforms could only gain acceptance gradually. (Berend 1990, 37)

\textsuperscript{56} Ibid., 272.

\textsuperscript{57} Berend and Csató, \textit{Evolution of the Hungarian Economy}, 301.

\textsuperscript{58} Berend, \textit{The Hungarian Economic Reforms}, 47.

\textsuperscript{59} Ibid., 48.

\textsuperscript{60} Ibid., 49.
The opposition to any major reforms at the time equated socialism with the Soviet type economic model and insisted that the approach in place was overall correct and that all that had to be done was ‘to trim its ‘excesses’ and ‘distortions’.” 61 As soon as the reform committees went to work, the opposition started its attack on the reform ideas labeling them revisionist and non-Marxist and “a stand-in for counter revolution.” 62 They advocated that the problems arose from the wrong economic policy and not the mechanism itself: “In our view the errors derived not from the economic foundation, the production relations, but from the economic policy. The economic policy was oversized.”63 The declaration made at the Meeting of Communist and Workers’ Parties in Moscow in the fall of 1957 that revisionism presented the main danger for the development of socialism, strengthened the opposition’s standing.

Overall the diversion from the reform path at the end of the 1950s appears to have come as a result of a combination of factors: the people at the leading positions that made decisions regarding economic policy debated against the comprehensive reform; the economy was recovering and the political situation was stabilizing quickly – “In April 1957 and again on May Day there were enormous rallies backing the government. Just as the shock of the serious collapse had strengthened the inclination to comprehensive reforms, so the swift economic and political consolidation did the opposite;” finally, the resolution of the Meeting in Moscow gave extra support to the anti-reform movement.64

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61 Ibid., 52, 63.
62 Ibid., 66.
63 Ibid.
64 Ibid., 70-72.
The corrective measures that were introduced at the time included the reduction in the number of plan indicators and elimination of direct central directives for a range of products in different industries, especially light industry.\textsuperscript{65} Enterprises became more involved in drafting their plans, although still through the same process of plan bargaining, just better institutionalized.\textsuperscript{66}

Small changes to the price system were introduced as well. The most important change was the abolition of state subsidies for basic materials (e.g. coal, bauxite, lead, iron ore, wool, timber) produced at home, which resulted, in some cases, in doubling and tripling of prices.\textsuperscript{67} The prices on imported goods were recalculated to equal an average of world-prices.\textsuperscript{68} The goal was to encourage more modernized and less resource intensive production.\textsuperscript{69} The book value of buildings and equipment was reassessed as well, to increase the depreciation rate.\textsuperscript{70} Moreover, the centrally determined fixed prices were to be revisited more often to better reflect changing production costs.\textsuperscript{71} In 1964 a 5 per cent fee to enterprises on their gross fixed assets to encourage their more efficient utilization was introduced.\textsuperscript{72} No changes were initiated to link consumer prices with producer prices.

\textsuperscript{65} Ibid., 75-76.
\textsuperscript{66} Ibid., 76.
\textsuperscript{67} Ibid., 82.
\textsuperscript{68} Ibid.
\textsuperscript{69} Ibid.
\textsuperscript{70} Ibid., 83.
\textsuperscript{71} Ibid.
\textsuperscript{72} Ibid., 108.
These piecemeal reforms were for the most part derived from the ideas presented by the pro-reformist side in the debates of 1957. The only difference is whereas the latter called for an all-around comprehensive systemic change of the economic mechanism, the conservative ‘reformists’ only applied the elements that did not undermine the basic principles of the system. Following this same route, therefore, they pronounced that the economic mechanism could be improved if production forces were further concentrated. Thus, in 1962, mergers of state-owned industrial enterprises were underway. As a result, their number decreased from 1,427 in 1950 to 839 in 1965 and the average number of employees in each rose from 336 to 1,183 respectively.\textsuperscript{73}

In agriculture, the significant shift first came with the proposal that membership in agricultural cooperatives should be voluntary and that peasants should be persuaded, rather than forced, to join them with the prospects of increasing their living standard.\textsuperscript{74} Even though due to the pressure from the Soviet Union the proposal had to be set aside and the process of forced collectivization had to continue, the government demonstrated its willingness to replace force and command with economic incentives. First and foremost, the system of compulsory deliveries at very low prices that had existed before the revolution of 1956 and that was eliminated by the revolutionary government did not return. A new system was introduced with much higher prices.\textsuperscript{75} What was more important, the government adopted a policy of tolerance of household farming – in other words, tolerance for private agriculture. Practically, the move was necessitated because the collectivized agriculture was not coping with the economic tasks alone. Ideologically,

\textsuperscript{73} Ibid., 90.

\textsuperscript{74} Ibid., 93.
the move was justified as a transitional measure that would be eliminated as soon as
collectivized agriculture was strong enough to provide an adequate supply of goods:

Household farming is an integral complementary part of cooperative farming....It will be needed so long as the economic activity of the cooperatives, namely the production of goods by them, has not reached a high enough level for collective production to take over the supply...of the peasant family needs of cooperative members, and their proportion of production....Then, and only then and on that basis will household farming become superfluous and meaningless. Until then, there is a need for it, and this issue must be taken very seriously...In many places the transitional measures are being branded in a sectarian manner as ‘capitalist tendencies’ or regarded as some sort of ‘sin and act against socialism...’ These damaging, narrow-minded ideas must now be forcefully eliminated, and everybody must understand....that the country needs meat! (Fehér 1960, 12; quoted in Berend 1990, 98)

Overall, even though the policy of industrialization continued, the emphasis on
military industrialization was eased and other sectors of the economy were being
developed concurrently.


When, in the 1950s, the pro-reformists and the ‘conservatives’ debated about the further economic future of the country, they did not argue whether any problems existed or not, they argued how to go about fixing the problems that the system created. The conservative wing that won the debate at that time argued that it was not the system that was wrong, but its ‘excesses,’ and, thus, the economic reforms of the 1950s aimed at trimming those ‘excesses.’ When, in the 1960s, the old problems started re-appearing with even greater intensity it became apparent that the piecemeal reforms did not bring the result that their proponents were hoping for. István Friss, head of one of the Central

75 Berend and Csató, Evolution of the Hungarian Economy, 302.
Committee Departments, in the 1950s strongly opposed an introduction of a full-scale reform. In 1971 he wrote:

Initially, it seemed that the reforms of the economic mechanism would not touch the theoretical problems of a socialist economy. It turned out, however, that a revision of practice necessitates also revision of its theoretical foundations...

....the laws of our present socialist economy must be established by ourselves, relying on the analysis of our own observations...

First, it can be stated that according to all experience hitherto gained, the activity of all units of economic activity cannot be rationally regulated from a single center. Economic decisions can be correctly taken only where the needed local and professional knowledge is greatest.....

Second, it may be stated that certain decisions must be taken centrally...

Thirdly, central economic decisions must be enforced upon enterprises and local bodies in such a way as to interfere least with their autonomy and initiative, that is, by means of economic regulators indirectly influencing their activities, rather than by direct instructions...

Fourthly, it can be stated that a substitution of economic methods for control by central plan or central instructions assumes, or rather requires, an expansion of commodity and money relations...

Fifthly, a system of economic mechanism built upon a decentralization of economic decisions, a substitution of indirect influencing for direct instruction, an expansion of commodity and money relations, and the regulative functions of the market, necessarily assumes also that some of the prices should depend on the market, on free agreement between buyers and sellers. (Friss 1971, 50-54)

In the 1940s – 1950s rapid industrialization was partly attained through the mobilization of additional labor resources in general and through attracting a greater number of peasants and women to industry. By the 1960s the surplus of manpower had been exhausted and economic growth could no longer be obtained by creating new jobs. So, the extensive development methods had to be replaced with intensive ones stressing technological development and productivity.

During the growth of our national economy, so far mainly of an extensive character, there has been a marked rise in employment; a large new labor force has entered industry, commerce and other branches of the economy. The ratio of active wage earners (excluding pensioners) has reached 81 percent of the population of working age; almost twice as many people are employed by industry than in 1949. The reserves for development of an extensive character are facing today depletion on a national scale; in some areas they have been already
exhausted. We must switch over increasingly to an intensive development, that is, to a type of economic growth which is primarily realized through technological progress, better organization of labor and production, growing skill and productivity of the workers, more effective utilization of productive resources. In other words, through a rise in the efficiency of social labor. (Nyers 1966, 21)

The policy of import-substitution pursued from the very beginning anticipated that the country’s dependence on other countries, especially capitalist ones, would decrease over time; the trade with capitalist countries initially was seen as a necessary evil that had to be endured out of necessity. In contrast to these expectations at the beginning of the 1960s Hungarian debt to non-Comecon countries almost tripled from 1,600 million forints in 1959 to 4,100 million forints in 1963 superseding the value of its exports to them. "According to a confidential report, ‘The [balance of payments] deficit has had to be offset by further borrowing and the rescheduling of existing credits.’" In other words, the economic policies of the time not only failed to create a self-sufficient economy, but also drove the country into even greater dependence on foreign credit.

The problem, thus, was two-fold. On one hand the economy of shortage that had developed in Hungary became highly dependent on foreign imports as gap-fillers; on the other hand, the goods produced for export did not generate enough inflow of hard currency, because of their inferior quality. Even though in accord with the piecemeal reforms of the 1950s various measures had been taken before 1968 to increase the quality of the product and promote technological development to produce goods of better quality, the situation did not improve. The main reason for the failure of the measures, as with the

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76 Berend, The Hungarian Economic Reforms, 114.

77 Ibid., 114.
rest of the reforms of that time, was that they were not targeting the core of the problem – the economic mechanism itself.

At the time when these feelings were manifesting themselves in Hungary, other countries of the socialist bloc, including the Soviet Union, were debating the possibilities for economic reforms as well. On the international scene the Cold War was replaced by the politics of détente and the Soviet Union was further stressing its commitment of no return to the Stalinist era.

Encouraged by these favorable international developments Hungary started to open up as well. In the beginning of the 1960s travel to foreign countries, including the West, became once again possible. In 1962 the famous Kadarian policy principle, “Whoever is not against us is with us!” legitimized policies of acceptance of differences in the society that ranged from removing the discrimination for university entrance for people with ‘other’ backgrounds to accepting churches and religious people; ‘believers belonging to any of the denominations can exercise their religion freely. There is no discrimination to their disadvantage. They are citizens with equal rights in our country.”

This shift to a more open and tolerant society also created an atmosphere in which the ideas of a radical reform of the economic mechanism could no longer be simply dismissed for ideological reasons.

The political system became much less repressive. The overwhelming majority of the old ‘caste’ privileges, such as special shops, were also abolished. Leading politicians, too were obliged to pay rent for their housing. There was no

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78 Before 1956 travel was almost impossible, even to the socialist countries. (Berend, The Hungarian Economic Reforms, 135.)


cult of an ‘infallible leader’ any more, and the supremacy of the legal system over political expediency was strengthened. All these changes laid the foundations of a new political style and became a stepping-stone for efforts at restoring the kind of human rights which had previously been disparaged and set aside. Even though most of the alterations were paternalistic government concessions that involved no change in the monolithic system, the developing ‘enlightened absolutism’ of the 1960s helped to create the main preconditions for economic reform.

Under these circumstances, the Hungarian authorities did not resort to the traditional administrative intervention or to organization and reorganization, nor did they opt for a course of inefficient, partial corrective measures when confronted again with economic trouble. (Berend 1990, 136)

The reform itself took effect on January 1, 1968. Measures to ease the transition to the new system such as further decreasing the number of compulsory plan indicators and gradually increasing enterprises’ independence, however, had been introduced gradually since 1966. The reform itself introduced the market as a regulating mechanism in addition to central planning. Planning remained important as a tool for formulating national economic goals, but it no longer prescribed to enterprises what to produce and how. In other words, planning of production was eliminated. (In the beginning the plan was still to provide directives for production of a number of products, but this was just a temporary transitional measure.) Enterprises were to formulate their own plans according to the conditions of the market (even though somewhat restricted). The plan bargaining system that had developed between enterprises and government, therefore, was eradicated. To ensure the fulfillment of the national economic goals, the government was to use indirect methods or economic regulators to steer companies in the ‘right direction.’

What will actually happen is that administrative constraints will be replaced by economic means of influence; these will be primarily the factors prompting the enterprises to adequate actions. Economic means, such as state collection of accumulation, rules regulating the use of foreign exchange, the price and wage

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policy, and the credit policy are the actual means for transmitting the national economy’s objectives to the enterprises. (Nyers 1966, 26)

The transformation of the price system was probably one of the most important steps in the reform process. The rigid price system of the Soviet style economy, which failed to account for the production cost and world prices and in which producer prices and consumer prices were not interconnected, was at the core of many problems that the country was facing. Since the reform of 1968 was designed as a gradual process, the price mechanism was to change gradually as well. In the beginning, the economy, having been closed to the influence of the world market for so long, could not have been subjected to the world-prices at once. ‘It would have been as if the windows of a hothouse had been opened wide in the middle of winter so that the plants might acclimatize to natural circumstances.”

The system that was introduced, therefore, consisted of three types of prices: fixed prices, prices moving within certain limits, and free prices. Fixed prices were used for basic raw materials for industrial production, basic agricultural products (milk, meat, etc.), and basic consumer products (bread, sugar, flour, etc.).

Prices moving within limits were used for capital goods, manufactured consumer goods, and processed food. Initially, 70 percent of the industrial producer prices were either fixed or could only move within certain limits; a few years into the reform process, the proportion dropped to 36 percent. Free prices were used for everything else. In addition

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84 Ibid.

a variety of factors were now incorporated into the calculation of domestic prices that made them more realistic.

Fewer changes were made to consumer prices initially; the plan was “to bring consumer prices and inputs closer together ....gradually, over a period of ten to fifteen years.”\textsuperscript{86} In the beginning, 50 percent of them were either fixed or regulated.\textsuperscript{87}

At the enterprise level the reform abolished the system according to which enterprises had to supply their output to a central organ, which then distributed it among other enterprises according to pre-determined planned quotas (exports had to go through especially licensed foreign-trade enterprises). After 1968 enterprises were free to seek their own domestic partners (with only some exceptions). The situation with foreign-trade was more complicated, because different rules had to be set for trading with the Comecon countries and with the West. Trade with Comecon had to continue to be conducted through governments negotiating what to trade and at what price. The only change that was introduced in Hungary in that respect was that enterprises were invited to participate in the negotiations. Trade with the West was still accomplished through foreign-trade enterprises, but the relationship between manufacturers and foreign-trade enterprises changed. From 1968 manufacturers could establish direct contact with foreign companies and directly participate in negotiations. Their relationship with foreign-trade enterprises became commission based according to which they would authorize a foreign-trade enterprise to buy or sell a certain product and would pay a commission for their services.

\textsuperscript{86} Ibid., 176.

\textsuperscript{87} Ibid., 174.
From 1972 enterprises were even allowed to establish joint ventures with western companies.

A large share of enterprises’ profit was appropriated into the budget through different taxes; whatever was left went into different enterprise funds, the investment and the profit-sharing funds being the largest. Since the state taxed enterprises at a flat rate, enterprises had an incentive to increase their profit, because a larger amount of it would then be left in their hands.

Centrally financed investment projects remained as a central element of the system, although their proportion was expected to decrease. Company investment accounted for only 39 percent of all investment spending in 1968. The figure was expected to reach 54 percent in 1969 and 57 percent in 1970. In addition enterprises could apply for a bank loan if they wanted to pursue an investment project that exceeded their investment fund.

Originally, the amount of profit that could be distributed into the investment and profit-sharing funds was decided centrally; shortly after the reforms were introduced the direct regulation was replaced by indirect measures like imposing a high tax rate.

Even though the enterprise wage bill was still regulated, enterprises were no longer told how many people to hire and what wage to pay. To balance out income

88 Ibid., 179.
89 Ibid.
90 Ibid.
91 Ibid., 178.
92 Only average wages and upper and lower limits on wages for certain occupations were centrally determined. If an enterprise wanted to pay higher wages to some of its employees, it had to pay lower wages to others to balance out the difference. (Berend, The Hungarian Economic Reforms, 180-181.)
differentials, the proportion of indirect benefits such as free medical assistance and education was gradually increased so that it eventually reached half of the income paid in money.\textsuperscript{93}

Enterprise structure remained the same, but the second phase of the reform was to facilitate the creation of small- and medium size enterprises and dismantling of monopolies.\textsuperscript{94} Enterprise units received a chance to become independent; according to Révész, due to the decentralization efforts the number of state firms increased during the first years of the reform.\textsuperscript{95}

Probably one of the most significant achievements of the reform of 1968 was liberalization of agriculture from state control and direction. “The end of paternalist state intervention and the consolidation of market relations turned the cooperatives into genuine businesses, while reinforcing a cooperative self-management that ranged from free decision-making about production and liberation from the monopoly of the state purchasing organization to the liberty to sell under market conditions.”\textsuperscript{96} Household farming and non-agricultural activities of agricultural cooperatives were endorsed and further promoted as well. This would prove to be an important factor in private sector development in Hungary that is discussed at greater length in chapter 4.

Even though the 1968 changes were just the first steps in the reform course, which was to be a process over time, the first years after the reform had been introduced already saw some major improvements: the third five year plan (1966-1970) was fulfilled

\textsuperscript{93} Berend and Csató, \textit{Evolution of the Hungarian Economy}, 314.

\textsuperscript{94} Ibid., 315.

\textsuperscript{95} Révész, \textit{Perestroika}, 79.
to a greater extent than the previous plans, the annual rate of growth increased, productivity improved, the standard of living rose, and shortages eased, just to name a few.\textsuperscript{97}

The anti-reform voices after the reform was introduced started their attack on the reforms in the name of protecting workers’ interests and socialism.\textsuperscript{98} Fueled by the rise in income differentials and the speedy increase of the peasants’ standard of living, which at times superseded the workers’ standard of living, the anti-reform movement waged an attack on the private initiative, cooperative ownership, household farming, and non-agricultural activities of cooperatives – everything that was openly generating higher profits than the state sector.\textsuperscript{99} The attacks on the economic mechanism were also coupled with the wide-spread ideological campaign criticizing the bourgeois values and trying to assert the correct socialist morals.

The attack on the main principles of the new mechanism – the introduction of the market principles and abolishing of plan directives, though, proceeded in vain. The pro-reformist side of the party and of the government continuously stressed their adherence to these main principles of the reforms. The partial victory of the counter-reform movement was in the little changes that were seeking to revert the economic mechanism to its old form.\textsuperscript{100}

\textsuperscript{96} Berend, \textit{The Hungarian Economic Reforms}, 184.

\textsuperscript{97} Ibid., 190-193.

\textsuperscript{98} Ibid., 202.

\textsuperscript{99} Ibid., 202-204, 214-217.

The first such change was introduced in 1973 when the government re-established central supervision of the fifty largest industrial enterprises.\textsuperscript{101} Next came the revision of economic regulators such as an increase in the proportion of company profits appropriated by the state, moving some investment projects from under company control to under the control of the central government, various limits on company funds, profits, etc.\textsuperscript{102} In other words, these changes were a way for the government to exercise control over enterprises even though the latter formally retained their independence, which they had acquired under the new system of 1968.

The main ‘achievement’ of the anti-reform movement was the halt of the second stage of the reform that was planned for the beginning of the 1970s. The reforms introduced in 1968 were transitional measures that were to be replaced by even more aggressive measures at the second stage.\textsuperscript{103} As the second stage was taken off the agenda, the reforms not only were discontinued, the transitional measures were retained, which inevitably led to malfunctioning of the system.

The international situation that seemed favorable to the reform movement in 1968, shifted sides in the beginning of the 1970s again and provided a supportive ground for the opposition. The Hungarian reforms that initially seemed to coincide with the reforms in other socialist countries at the end went far beyond the changes introduced in any other country.\textsuperscript{104} As a result, criticism of Hungary as deviating from socialist ideals

\textsuperscript{101} Berend, \textit{The Hungarian Economic Reforms}, 210.

\textsuperscript{102} Ibid., 210-211.

started to reappear in the beginning of the 1970s everywhere throughout the socialist camp, of course with the Soviet Union in the lead. The world crisis of 1973 at first helped the anti-reform movement, because the initial response was to try to keep its influence ‘outside of the Hungarian borders’ and protect the country from it. Since it was only possible with increased government involvement in the regulation of the economy, it coincided with and encouraged the anti-reform sentiments.

There can be no doubt that the reform introduced in 1968 meant a qualitative change as against the earlier control system, in spite of its several compromises, solutions that were meant to be transitory and the widespread use of “brakes”. But the evolution of the reform stopped short already in the early seventies, in spite of favorable economic results, international economic and political conditions that could be said ideal, and following that some backward steps were made. Next we reacted to the world market price explosion with a delay and not with too great conviction, assuming that the exclusion of external market impulses from the internal processes, and later its strong damping would be suited for maintaining the earlier smooth balanced growth we got used to, for avoiding the economic conflicts (necessarily having political implications). The result was – quite contrary to central intentions – a conspicuous growth in the distance between enterprise efforts and economic rationality. (Antal 1979, 263)

Five years after the world oil crisis, though, it was becoming apparent that its consequences were there to stay, and if the protectionist policies that heavily relied on

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104 A story recalled by R. Hoch provides an illustrative example. The author recalls visiting a different socialist country and discussing the Hungarian economic mechanism with a colleague of his from that country and the surprise of his colleague when he learnt that Hungarian enterprises operated without plan instructions, that they were free to choose their suppliers and to choose how much and what to produce, that there was different types of prices, etc. According to the author, the colleague of his had never heard of all this before. (R. Hoch, “Modifying the Regulators or Improving the Mechanism,” Acta Oeconomica 23, no. 3-4 (1979): 247.)

105 As a result of the oil crisis the prices on raw materials drastically increased and the prices on finished products decreased. Since the Hungarian economy was highly dependent on the import of raw materials and export of finished products, the crisis upset the Hungarian balance of trade and drove the country into deficit. Understanding this, the government’s reaction was to revert to the policies of protectionism through liberally subsidizing domestic economy, which was accomplished through heavy borrowing.

106 “Brakes” were the changes that were held back at the initial stage of the reform process and were to be introduced at its second stage, such as freeing more prices from state control and giving more independence to enterprises.
borrowing were to be continued, they would lead the country to insolvency. The pro-reform course was once again revived with emphasis on the expansion of exports.

**Reforms of 1978-1988.**

As the other countries of the socialist bloc were facing similar problems, the understanding of the Hungarian reform process came under a different light. Now even Soviet economists were discussing the possibility of applying the Hungarian measures to the situation in the Soviet Union.\(^{107}\)

The debate in Hungary revived the forgotten ‘second stage’ of the reform of 1968. The price system was modified once again.\(^{108}\) This time economic activity was divided into competitive and non-competitive sectors. In the competitive sector, the prices for energy and raw materials were set at ‘the prevailing most expensive purchase [import] prices’ and the manufacturing prices for companies whose hard-currency exports accounted for more than 5 percent were to be based on export prices ‘in convertible currency.’\(^{109}\) This so-called international competitive price system covered 35 percent of national income.\(^{110}\) Manufacturing enterprises whose hard-currency export did not exceed 5 percent were to use so-called follower prices – ‘a firm with a similar profile whose domestic prices were export determined would be selected as a ‘leader,’

\(^{107}\) Berend, *The Hungarian Economic Reforms*,


\(^{110}\) Ibid., 238; Berend, *The Hungarian Economic Reforms*, 261.
and the ‘follower’ firm would have to follow its lead in pricing.”

In the non-competitive sectors - services, construction, construction materials, agriculture, and food processing, prices continued to be determined centrally.

Consumer prices, which by 1978 overall were 4 percent lower than producer prices, were modified as well. The changes were still very partial, though, – centrally ordered price increases, the elimination or reduction of some subsidies, changes to the turnover tax; they did not alter the basic problem of the producer-consumer price mismatch.

In 1985 price reform was again on the agenda. This time a Price Club of state enterprises freed from all pricing regulations was created, and more goods were set to be sold at free prices. “As a result of these measures, Hungary’s price system was almost fully liberated by the end of the communist period.”

Small changes to the banking system started to be introduced at the beginning of the 1980s with the establishment of ten small banks, two joint venture banks in Budapest, and two Hungarian banks operating in the West. They owed their creation to the shortage of central funds to finance small investment projects and, hence, the idea to establish funds independent of the government budget to carry out those tasks. The socialist banking system was finally restructured in 1987. A two-tier system was set up instead, with National bank taking on a role of a central bank responsible for ‘monetary

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111 Révész, Perestroika, 108.

112 Berend, The Hungarian Economic Reforms, 262.

policy, international credit transactions and control of the domestic money market,” and commercial banks operating on a “competitive, profit-based system” set up to deal with all the banking needs of enterprises.\(^{115}\)

Further steps towards decentralization were taken. First and foremost, in 1980 branch ministries were finally abolished and a single Ministry for Industry was created that no longer had direct control over enterprises. “The new ministry was to avoid detailed company oversight and deal instead with strategic decision making with regard to large-scale industrial development and the introduction of modern technology. The new ministry retained ownership of the state industrial firms but lacked departments to run those firms. The size of its staff was less than half that of its predecessors.”\(^{116}\)

Starting in the beginning of the 1980s the decentralization of large enterprises granting independence to their units was put on the agenda and implemented, albeit slowly, as well. As a result of this policy, the number of state industrial enterprises rose from 702 in 1979 to 1,007 in 1986.\(^{117}\) Overall, more than 4,000 new enterprises emerged and the number of trusts (monopolistic enterprise conglomerates) declined from 24 in 1980 to 9 in 1985.\(^{118}\)

The central control of the economy in a socialist type economy (at least the type that developed in Eastern Europe) also covered the control of the cash flow. At the

\(^{114}\) Révész, *Perestroika*, 119.

\(^{115}\) Berend, *The Hungarian Economic Reforms*, 270.

\(^{116}\) Révész, *Perestroika*, 110.


enterprise level it was done through keeping all the finances in different funds in the State Bank. At the individual level it was done through regulation of wages. For that reason, the wages could not be set free. At the same time, there was a need to create a system that would link financial rewards to individual performance. In 1968 a step in that direction was taken through setting up enterprise wage funds and replacing centrally set wages with average wage levels that could be manipulated within certain limits. In the 1980s this system was abolished as well and individual wages were no longer regulated. Since the state still strove to preserve control over aggregate cash flow, a limit on the total wage fund was introduced instead. Additions to the wage fund above the limit were added to the total profit and taxed at 50%.119

Far-reaching changes were introduced at the enterprise level. From the middle of the 1980s, the management of large and medium-sized enterprises was transferred to enterprise councils and the management of small enterprises to the general meeting of all employees or employees' representatives.120 With this some property rights to enterprises were transferred to the new management bodies as well: ‘they can make decisions about issuance of bonds for investment purposes, transfer assets, mergers with other enterprises, and about important employment problems.’121 By 1986 sixty two percent of state industrial enterprises were managed by enterprise councils and fifteen percent by workers’ general meetings, with only twenty three percent of state industrial enterprises


121 Ibid., 132.
remaining under direct state supervision (according to Adam, primarily enterprises in bad condition).  

Even after the ministerial structure was modified, company managers remained under the control of and were responsible to the minister and not the company. In 1984, the Company Act of 1977 was amended to give the authority to appoint and dismiss enterprise management to company councils or, in the case of companies with fewer than 200 employees, to the general meeting of company workers.  

“The post of company manager was placed on a competitive basis. With a term of office of five years, company managers were made accountable to the company itself instead of the minister.”

Various laws of 1982 established nine new organizational forms for carrying out private economic activity and loosened regulation and licensing requirements for small artisans and individual tradesmen. The most prominent of the new organizational forms were work partnerships. There were two types of completely independent, private partnerships – an economic work partnership (GMK) and a civil legal association (PJT). GKMs could provide services and undertake production activities, but could not do commerce; they could have up to 30 members; and there was no limit on the number of close relatives of members that could work for GKMs (except siblings). PJTs were

\[\text{Ibid.}\]

\[\text{Berend, The Hungarian Economic Reforms, 273.}\]

\[\text{Ibid.}\]

\[\text{Róna-Tas, The Great Surprise, 143.}\]

\[\text{Ibid., 147.}\]
smaller in size, only up to four members, and were meant to provide an organizational form for private small retail traders.\footnote{127}

The most popular type of partnership became the semi-independent company work partnership (VGMK) (or ISZSZCS – its counterpart in agricultural cooperatives). VGMKs were semi-independent, because they had to have a parent company that provided the material base (equipment, materials, etc.) and was liable for any obligations that the partnership undertook.\footnote{128} They were independent, because they independently contracted for work with any state enterprise\footnote{129} and were free to organize their work process any way they wanted: ‘they were free to discard the division of labor designed by the firm for the same tasks and reinvent a new and more flexible work organization.’\footnote{130}

All the partnerships in a sense just institutionalized practices that either had been going on informally, in the case of some private business activities, or had developed in response to the limitations of the system, which was the case with semi-independent partnerships. VGKMs simply institutionalized the practice that had developed at the state enterprises, according to which an individual worker or a group of workers would bargain with the management to give them overtime work that had a higher hourly pay, thus avoiding the state imposed restrictions on wages.\footnote{131} ‘Managers found that they were able to circumvent the strict regulations limiting wages because VGMK work was not paid out

\footnote{127} Ibid.
\footnote{128} Ibid.
\footnote{129} Although most of them ended up contracting with their own parent company.
\footnote{130} Ibid.
\footnote{131} Ibid., 148-149.
of the wage fund but from the firm’s expense account. The VGMKs allowed companies to keep their best workers and provide others with incentives to work hard.”

**Final Days of Communism, 1988 – 1990.**

The biggest obstacle to all the changes at the enterprise level was the Corporation Act of 1875 that was outdated and inadequate, but was still in effect. The new enterprise law was finally adopted on January 1, 1989 that established various forms of corporate organization such as limited liability company, joint-stock company, company limited by shares, etc., and guaranteed legal protection of the assets of private firms. The Law on Transformation followed that mandated all state-owned enterprises to transform into corporations by 1992. The biggest obstacle to all the changes at the enterprise level was the Corporation Act of 1875 that was outdated and inadequate, but was still in effect. The new enterprise law was finally adopted on January 1, 1989 that established various forms of corporate organization such as limited liability company, joint-stock company, company limited by shares, etc., and guaranteed legal protection of the assets of private firms. The Law on Transformation followed that mandated all state-owned enterprises to transform into corporations by 1992. Even though that was the beginning of the privatization process, the phase that is normally referred to as a spontaneous privatization, the Law on Transformation did not necessary imply that the enterprises had to be privatized; “Transformation of a state-owned enterprise into a corporation is a prerequisite for privatization, and sometimes the two acts take place simultaneously; but transformation itself does not necessarily create a private firm.” The Law on Entrepreneurship with Foreign Participation adopted in 1988 and amended in 1990 legalized foreign ownership of Hungarian firms. In 1990 the State Property Agency was created to supervise the process of privatization.

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132 Ibid., 149.

133 Brada, Singh, and Török. *Firms Afloat and Firms Adrift*, 14.

134 Spontaneous privatization had actually started by some companies prior to the introduction of this act, finding ways to privatize under the Corporate Act of 1875. Róna-Tas, *The Great Surprise*, 170.

Unlike in the Soviet Union where similar laws were introduced at about the same
time, but could not fully operate, these laws in Hungary were functional due to the other
systemic changes that the country’s economy had undergone simultaneously, such as
various price reforms and making enterprises more independent.

The economic reforms of the 1980s provided the foundation for the
transformation of the economy in the 1990s. The quick and peaceful regime change in a
matter of a few years at the end of the 1980s guaranteed a stable political environment for
the future transition process so vital at times of big transformations.

Conclusion

Major criticisms of all the economic reforms discussed above always stress the
contradictions between the intentions to create a free market environment and the
system’s ‘inability’ to realize them. It is argued that the nature of the communist system
was antagonistic to any kind of a market mechanism and, thus, the system always found a
way to create obstacles for any meaningful changes to occur. This research does not
necessarily contend these ideas. The Soviet system that Hungary originally adopted was
based on the principle of a fully controlled economy and no room for market or market-
like relationships was left. Obviously, to introduce any kind of market elements into that
kind of a system would be met with resistance from the forces opposed to the change.
This can be clearly seen from the brief historical analysis presented above.

The intent here, though, was to shift the focus of the analysis from what the
reforms failed to accomplish to what they did achieve. It is not the failed attempts at
restructuring the system that put the former communist countries at different starting
points at the beginning of the transition process at the end of the 1980s. It is the debates and little changes that had been introduced or evolved on their own before the transition process that gave some of the countries a head-start.

In the case of Hungary it becomes obvious that the ‘typical’ Soviet economic model was not so typical: centrally planned directives for enterprises had been replaced by economic regulators some twenty years prior to its collapse, and so was some central regulation of prices; the market, even if limited, existed on par with central planning; private initiative had been gradually introduced into the system so much so that in the beginning of the 1980s it was officially recognized; the need for orienting to the world market prices had been voiced and accounted for since the reforms of 1968.

The basic underlying difference in the Hungarian experience had been the approach to reforms and their more systematic application. Up until 1989 the main approach to reforming the mechanism in the Soviet Union could not really be called a reform; it was constantly rather an attempt to ‘improve’ the mechanism by the means of ‘making more efficient’ some of its elements. In Hungary the reforms were indeed drafted to modify the mechanism itself. For example, ‘more freedom’ to enterprises in the Soviet Union was understood as replacing existing plan targets with other ones (for example, replacing the gross output index with the ‘realized’ gross output index (sales)), and was very resistant to the idea of freeing enterprises from centrally determined targets. In fact, when the reformers in the Soviet Union were discussing the possibility of letting enterprises draw their own plans, they did not for a minute imagine abolishing central production plans at the enterprise level; they rather imagined that enterprises would be given certain targets and they would have to build their own plans around those targets –
that is simply shifting the enterprise planning process from the ministries and glavks to enterprises themselves, but keeping it based on the same principles. The Hungarians removed production plans altogether and made enterprises free participants of the market in 1968; and, despite the setbacks in the 1970s, this feature of the reform was never abandoned.
CHAPTER 4
STATE AND PRIVATE SECTOR IN HUNGARY AND RUSSIA BEFORE THE TRANSITION

The measures introduced by the governments in the former communist countries after communism collapsed were meant to facilitate the creation of a market economy, as discussed in chapter 1. Despite the seeming complication of the matter, what the first steps were to accomplish was to facilitate the establishment of private activity, especially small-scale private activity, and competition by freeing the market and enterprises from government control and by liberalizing prices and trade. What I have tried to argue through the analysis in chapter 3 is that Hungary had been taking steps in that direction already during communism and that the concern for market and private initiative had been a part of the discourse long before the full-fledged transition to the market started. The next step in the analysis is to demonstrate whether the differences in the two countries’ developments yielded any different results as well before the transition process started. That is if the state sector in Hungary operated any differently from the state sector in Russia and if private initiative had been accepted on a much larger scale in Hungary than in Russia.

This chapter focuses first on the structural difference of industry in Hungary and Russia on the verge of the transition process. Then I examine Hungarian state enterprise to contrast its behavior with the typical Soviet state enterprise presented in chapter 1. A discussion of the so-called ‘second economy’ under which private initiative, legal and illegal, was classified in the communist times follows. The chapter concludes with the
discussion of what implications all these differences have on the transitions in Russia and Hungary in general in the 1990s.

Structure of Industry and Economy

Every textbook on the structure of Socialist industry will tell you that the former socialist economies were dominated by production enterprises of a large size. This was normally illustrated by the proportion of the people working for enterprises of different sizes. For example, in 1960 54.3% of the industrial labor force in the Soviet Union was employed in enterprises with more than 1,000 persons, and in 1964 that number increased to 59.6%.\(^1\) In Hungary the figures were 58.8% and 82.5% respectively.\(^2\) Moreover, production was also highly concentrated: “By 1979 [in the Soviet Union] enterprises employing more than 1,000 workers accounted for more than 70% of the value of industrial output, employed almost three-quarters of all industrial workers, utilized more than 80% of the capital funds but constituted only 17.5% of the total number of enterprises;”\(^3\) “In 1975 in Hungarian industry the three largest producers supplied more than two thirds of production in 508 and 637\(^4\) product aggregates.”\(^5\)


\(^2\) Ibid.


\(^5\) Ibid., 28.
As was discussed in chapter 3, though, the process of reorganization of Hungarian industrial enterprises began in the early 1980s under the policies of the communist government. By 1986 it had already brought some tangible results: the number of state industrial enterprises rose from 702 in 1979 to 1,007 (43% increase) in 1986 with the number of industrial enterprises employing fewer than 100 people rising from 50 (7% of all industrial enterprises in 1979) to 229 (23% of all industrial enterprises in 1986), the number of enterprises employing 101-500 people changing from 190 (27%) to 281 (28%), and the number of enterprises employing more than 500 people changing from 462 (66%) to 495 (49%). The slight increase in the number of enterprises employing more than 500 people is attributed to the decomposition of even larger organizational units, trusts (‘monopolistic enterprise conglomerates’); according to Brada, the number of all trusts decreased from 24 in 1980 to 9 in 1985.

I could not locate data for the distribution of industrial enterprises in Russia or the Soviet Union by size, but the statistics presented in Table 1 for the number of production associations indicates that in Russia in the 1980s the reverse process was observed - the further amalgamation of enterprises into bigger production units continued. (Here I opted to use the statistics for the Russian Republic, rather than the Soviet Union, because it provides a better comparison for the case studies at hand.) Any dissolution of enterprises into smaller units could not have proceeded on a large scale, because the total number of production organizations did not increase much, as happened in Hungary (Table 1).

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The private sector was also different in the two countries. The introduction of the new forms of organizations for private activity in Hungary in 1982 changed the structure of small-scale private production activity as well. The percent of people legally
participating in private partnerships of different kinds increased from 3.5% in 1983 to 8.1% in 1987 (including full-time and part-time participants) (Table 2).

Table 3 presents the data from Soviet official statistics on the percentage of employed population in different sectors. The data report zero percent of people engaged in private labor activity as small craftsmen and artisans, which means that their number was very minimal. According to Anders Åslund, legally registered private enterprise before 1986 did not exist in Russia. The cooperative, then, which was legalized in 1988, was the first legalized form of private enterprise that was allowed to engage in small-scale production activities.

Table 3. Percent of Employed by Sector in the Russian Soviet Federalist Socialist Republic.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State sphere</td>
<td>87.8</td>
<td>92.3</td>
<td>93.0</td>
<td>93.1</td>
<td>93.1</td>
<td>92.6</td>
</tr>
<tr>
<td>Agricultural collectives</td>
<td>10.0</td>
<td>6.6</td>
<td>6.0</td>
<td>5.9</td>
<td>5.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Production and service cooperatives</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Private labor activity, etc.</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Household plot</td>
<td>2.2</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


According to a representative survey conducted in 1981, before the introduction of partnerships, full-time legal private sector (small artisans and traders) in Hungary constituted 3.8% of the labor force, but another 27.9 percent of Hungarians regularly engaged in some part-time private activity retaining their full-time employment with the state sector (Table 4). Notice that illegal private activity recorded in the numbers is

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limited to non-license private activity and not activity that is prohibited by law. The labor contract category included people that contracted with state enterprises for occasional jobs.

Table 4. Private Sector Activity in Hungary by 1981.

<table>
<thead>
<tr>
<th>Private Sector Activity</th>
<th>Percentage of Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>68.3</td>
</tr>
<tr>
<td>Part-time</td>
<td>27.9</td>
</tr>
<tr>
<td>Household farming</td>
<td>21.3</td>
</tr>
<tr>
<td>Nonagricultural Labor (Artisans and Services)</td>
<td>5.0</td>
</tr>
<tr>
<td>Labor contracts</td>
<td>2.5</td>
</tr>
<tr>
<td>Renting</td>
<td>1.0</td>
</tr>
<tr>
<td>Full-time</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Róna-Tas 1997, 117.

In a study of Soviet immigrants in Israel in the 1970s 8% of the participants indicated that they had participated in some kind of private activity (primarily excluding agriculture) while they were residing in the USSR. In the 1980s a study of Soviet immigrants in the United States showed that 13% of those interviewed participated in some kind of private work (excluding agriculture) while they were residing in the USSR. Considering how low the official statistics were, the private activity had to have been predominantly carried out illegally. Since the scope of private activity allowed by the law was very limited, which will be discussed later, most of the illegal private activity

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9 It appears that the part-time private activity recorded here includes licensed as well as non-licensed activity.


was actually in spheres prohibited by law (as opposed to be illegal just due to the violation of licensing regulations).

To summarize, this brief analysis demonstrates the following. Hungarian state industry was much less centralized than Russian industry and had been moving towards decentralization throughout the 1980s. The legalization of new forms of private organizations in Hungary in 1982 resulted in the proliferation of small-scale private activity, including industrial private activity, a number of years before the market transition started. Whereas a large percentage of the Hungarian population engaged in part-time legalized private activity, Soviet citizens normally engaged in illegal private activity. As a result, the overall structure of the Hungarian economy before the transition to market started was much more saturated with small scale legal private activity than the Russian economy.

**Behavioral Differences**

The typical Soviet enterprise behavior that was described in chapter 1 was often understood to be common for the East European region overall. It is not uncommon to read a description of the Hungarian economy before 1989 along the following lines - some changes had been introduced after 1968, which had introduced market elements into the system, but the central control prevailed and the basic conditions of ‘the economy of shortage, the redistribution of revenues virtually independent of performance, bureaucratic economic control and the policy of full employment’ remained unaltered; therefore, no significant changes at the enterprise level had taken
place either. While one cannot challenge the truthfulness of this view, one has to understand that it does not necessarily imply that the Hungarian economic mechanism by the 1980s, nevertheless, completely resembled the Soviet type system. The problem lies in what one chooses to use as a measure for comparison – the market allocating mechanism or the Soviet command economy. The above mentioned views put forward the arguments that present the areas of the Hungarian system where the market mechanism failed to work; and that, naturally, amounts for extensive criticism. An alternative view, which I present here, is to examine the changes that the market mechanism did introduce that altered Soviet-type economic mechanisms.

Changes along these lines were well summarized by Támás Bauer, which is worth quoting at some length:

Many Hungarian critics of the functioning of the economic system after 1968 point out how strong the role of state authorities in everyday enterprise decision-making continued to be, how often formal and especially informal commands were issued by the authorities....While in the first years of the reform one could hope that commands would be exceptions, after 14 years one must admit that they were issued quite frequently indeed. Nevertheless, they were no longer part of a comprehensive system.

Enterprises consult the ministry while drafting their plans and even submit the plan to the ministry; in turn, the ministry often directs the enterprise to do or not to do something. But neither the ministry nor the planning office total up the plan figures supplied by the enterprises.

This is facilitated by another important change. Despite frequent intervention in material allocation and inter-firm relations by the branch ministries...the central allocation of materials and products was abolished as a system. Even the tensions in materials supply after the oil crisis in the mid seventies did not result in a general return to the old system.

It is the lack of aggregation and dis-aggregation in planning, the fact that plan figures are submitted only for consultation and not for approval, and that

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enterprises generally have to buy materials and not to apply for them, that makes the system different from traditional Soviet-type planning.

One of the most important consequences of the changes is that plan fulfillment – especially the fulfillment of the output plan – ceased to be the basic success indicator of enterprises. It is true that profit has not become the dominant success indicator that it should be according to the logic of the NEM. But it was always actual performance and not fulfillment of a plan that counted. This is something that remains an endeavor or maybe a hope in the Soviet Union and other CMEA counties with directive planning. (Bauer 1983, 305-306)

The author goes on to say that the reasons for plan bargaining practice, through which enterprises in the Soviet Union negotiate for lower plan targets, ceased to exist as well. In other words, the logic of enterprise behavior was changed.

In the same vein Burawoy and Lukács discover that as a result of all the changes that Hungary had undergone, the country by the 1980s had developed a different distinctive type of enterprise management (what the authors referred to as a ‘factory regime’), what they labeled as ‘bureaucratic hegemonic.’

The enterprise no longer controls the distribution of scarce goods and services, such as housing, child care, televisions, cars, food, clothing, etc. These are now available either through the market (purchasable with forints) or through distribution by the state. Management loses its capacity to extract submission through its monopoly of scarce consumer goods but does not develop new power based on the threat of firing or laying off workers. Management has to elicit the consent of workers, through financial incentives, bonus systems and piece rates, the distribution of overtime, or participation in lucrative ‘economic work partnerships.’ But there isn’t a cadre of party activists mobilizing rank-and-file workers to participate in production campaigns, to achieve plan targets, or to scale new heights in output records. (Burawoy and Lukács 1992, 33)

This style was contrasted with the Soviet type factory regime, labeled bureaucratic despotic regime:

management, with the aid of trade union and party, extracts submission from workers due to their dependence on enterprise supply of goods and services. At the same time management is dependent on the spontaneous cooperation of

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14 Ibid., 306.
workers to meet the exigencies of uncertain supplies of materials and machinery. Management uses its monopoly over scarce consumer goods to reward a leading cadre of activists – such as Stakhanovites or heroes of labor – who become involved in directing production, set norms to be emulated, or surveil rank-and-file workers. (Burawoy and Lukács 1992, 33)

The differences between the two systems accounted for the fact that when the authors undertook a comparative study of an American and a Hungarian factory, the organization of work in the latter defied almost every stereotype that existed about a typical socialist enterprise, whereas the former resembled them much more closely:

The technical efficiency at Bánhki’s [the Hungarian enterprise] machine shop was greater than at Allied’s [the American enterprise]. In comparison with Allied, Bánhki operators work as hard if not harder and produce higher-quality work, norms are better adjusted to jobs, pressure for innovation is more continuous, planning on the shop floor is more effective, the external labor market is better able to tie rewards to skills and experience, and bureaucratic rules that interfere with production are more limited. (Burawoy and Lukács 1992, 78)

The authors did not argue that this was the case for every state enterprise in Hungary, which in fact was shown by their own research at a different Hungarian enterprise that displayed “the distinctive problems of shortages, inefficiency, and bad planning.” 15 What they did conclude was that those Hungarian enterprises that were semi-autonomous units of larger enterprise (that was the case with Bánhki) were more likely to operate as efficiently as a western enterprise than the ones that were not (which was the case with the other Hungarian enterprise), because the former were further removed from politics. 16


16 Ibid.
“While the enterprise center will bargain with the state its constituent firms are more insulated from the wider political arena.”

The idea that affiliate units of large state enterprises in Hungary in the 1980s often indeed operated more efficiently and on the market principles is also upheld by Dobák and Tari:

At some large enterprises, the flexibility and the entrepreneurial spirit of internal divisions and plant units undoubtedly increased [in the 1980s]. In the possession of capacities put at their disposal, they were able to ‘switch over’ to manufacture products requested by the market, within a relative short period of time. (Dobák and Tari 1999, 332)

Lanyi noticed that the traditional framework of analysis of enterprise behavior that was commonly used in the 1980s was not receptive to understanding their market behavior. “If we examine how the state strives to guide its enterprises instead of using public plan instructions, and how the enterprises respond to this, however great and however accurate a mass of data we may obtain, it will not be appropriate for telling us how the market operates and what the market behavior of the companies which constitute the market actually is.... It might take a form that can be imagined departing from the relationship between the state and its enterprises.” The author ‘found’ his research method in the results of a different Hungarian study, which ‘by accident’ revealed the following market-oriented set of behaviors of one of the companies in the study: production and development focusing on sales; cost-conscious economic management; the marketing activities powerfully built into the company’s organization; good relations with suppliers and reliable customer service; and internal planning, accounting and an

17 Ibid.

incentive system, serving the enterprise objectives.\textsuperscript{20} The author then applied these and other characteristics (strategic planning, formulating the business strategy of the company; modern organization systems, computerization; strong, open profit-orientation; market policy, competitive activity) to an analysis of the behavior of 21 Hungarian companies, information about which was collected as part of a different study.\textsuperscript{21} Of the twenty one companies, fourteen demonstrated “some ensemble of rules for successful market behavior;” and seven companies of the fourteen had “an elaborate system of coherent rules [for successful market behavior].”\textsuperscript{22}

The evidence that demonstrated the kinds of market behaviors that the Hungarian state enterprise was missing during the communist regime is of course far more abundant than the studies arguing otherwise. The main problem is that in the 1980s, when most of the studies were conducted, their main goal was to prove that the reforms had to be continued and go beyond the partial measures introduced henceforth; hence, the strong emphasis on the shortcomings of the market mechanism in the country. The achievements of the reforms, therefore, did not seem to warrant much attention, because they were only ‘partial.’ In addition, the yardstick of comparison was always the enterprise in the market economy, rather than the enterprise in the traditional Soviet economy. Comparisons of that sort always concentrated on the enterprise behavior as

\textsuperscript{19} Ibid., 126.

\textsuperscript{20} Ibid., 127-128.

\textsuperscript{21} The 21 companies were presented at a theoretical conference in 1985 as successful examples of the policy of revitalization. They had been selected for presentation for demonstrating the increase in the income-producing capacity, a strategy targeting technological renewal, and taking into account human factors. Ibid., 129.

\textsuperscript{22} Ibid.
influenced by the differences in the macro-economic organization of the two societies (market mechanism vs. controlled market mechanism), which could not explain (and did not strive to explain) the variation in the enterprise behavior of different socialist countries.

The studies introduced above by far present very limited evidence of efficiency and market orientation of Hungarian state enterprises during the communist regime. Their purpose here is to rather demonstrate that there was much more variation in the behavior of Hungarian enterprises than normally was assumed, because its communist system was treated as being identical to the Soviet system.

**The Second Economy**

Any conventional analysis of communist legacies in the former communist countries is limited to the analysis of the state socialist sector. The analysis of the non-state economy rarely steps beyond agricultural production. Yet, the presence of the extensive second economy in all of the former communist countries is well known and more or less well documented. Possibly the second economy has not been given much

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merit in the transition process, because it is not uniform and it is hard to control and change through official rules and regulations. Nevertheless, it existed and was significantly different in both countries.

This section of the chapter compares the state of the second economy in Hungary and Russia before the transition to the market started. I borrow the definition and typology of the ‘second economy’ from the volume edited by Maria Ľoú. According to the definition, the second economy is distinguished from the ‘primary’ economy on the basis of ideological reasons to include “all areas of economic activity which are officially viewed as being inconsistent with the ideologically sanctioned dominant mode of economic organization.” The caveat here is in the word ‘sanctioned’ – an activity may not be ideologically ‘sanctioned’, but nevertheless be legal. In other words, ‘ideologically sanctioned modes of production’ refer to the sectors that were normally perceived to concord with the dominant Marxist-Leninist ideology in general - the state ownership of production and the cooperative (or collective) ownership of agriculture; and the second economy refers to every other economic activity outside of these two sectors, both legal and illegal.

On the basis of this definition four types of activities of the second economy can be distinguished: (1) legal second economy inside the primary sector; (2) illegal second economy inside the primary sector; (3) legal second economy outside the primary sector; and (4) illegal second economy outside the primary sector. Table 5 demonstrates some

\[^{24}\text{Maria Ľoú, “Introduction,” in The Second Economy in Marxist State, ed. Maria Ľoú (New York: St. Martin's Press, 1990), 1-10.}\]

\[^{25}\text{Ibid., 2.}\]

\[^{26}\text{Ibid., 5-6.}\]
production-related activities of each type that proliferated in both countries in the middle of the 1980s.

Table 5. Second Economy Activities by their Legal Nature and Relation to the Primary Sector.

<table>
<thead>
<tr>
<th></th>
<th>Within the Primary Sector</th>
<th>Parallel to the Primary Sector</th>
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<tbody>
<tr>
<td>Legal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>- semi-private production units (Hungary)</td>
<td>- private agricultural plot (Hungary, Soviet Union)</td>
</tr>
<tr>
<td></td>
<td>- over-time work by employees (Hungary)</td>
<td>- artisans and craftsmen (Hungary, Soviet Union)</td>
</tr>
<tr>
<td></td>
<td>- private economic work partnerships (Hungary, from 1982)</td>
<td>- cooperatives (Soviet Union, legal from 1988)</td>
</tr>
<tr>
<td></td>
<td>- private contract work for state enterprise (Hungary before 1982)</td>
<td></td>
</tr>
<tr>
<td>Illegal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>- illegal private production within state enterprises (Soviet Union)</td>
<td>- engagement in private economic activities outside of the state sector specifically prohibited by the law (Hungary, Soviet Union)</td>
</tr>
<tr>
<td></td>
<td>- false reporting of the enterprise capacity (Soviet Union)</td>
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</tbody>
</table>

The list of activities in Table 5 is by no means comprehensive; it is rather very schematic. Any activity that is listed as legal can shift into the area of illegality if licensing and other regulations necessary to perform it are not observed. What the table is meant to suggest, rather, is the extent of legal private production-related spheres in Hungary and the limits in the Soviet Union. Due to institutional differences in the two countries, activities, which could only be undertaken illegally in the Soviet Union, found legal grounds in Hungary. As a result, black market activity in the Soviet Union was much more extensive than in Hungary as well.

According to a CIA estimate, the legal private sector generated 10% of Soviet GNP in 1968, 76% of which came from agriculture, 22% from housing construction, and 2% from services.27 Grossman also notes that since the proportion of the private sector in

GNP had been on the decline prior to 1968, it must have declined even further after 1968 constituting by the end of the 1970s less than 10%.\(^\text{28}\) In Hungary, according to Gábor, the legal second economy most likely generated at least one-fifth (20%) of GNP.\(^\text{29}\)

An estimate of the illegal private sector in the Soviet Economy and Hungary is even harder to come by. According to Grossman and Feldbrugge, the best estimate that most observers could offer for the Soviet Union was that it was significant.\(^\text{30}\) Probably the best indication of the predominance of legal or illegal private activity and their overall purpose can be inferred from the types that most proliferated in the two countries.

I would like to start the analysis with private activities that proliferated parallel to the primary sector. In the USSR the legal private activity outside of the state sector (except for cooperatives) was regulated by the Constitutional provision that permitted individual labor activities only in the spheres of small-scale craftsmanship and agriculture, services to the population, and other types of activities, based exclusively on the person’s own labor or the labor of family members.\(^\text{31}\) Employment of one individual by another was prohibited. Engaging in certain types of private activities constituted a crime. Among those, for example, were processing of food, printing activities, being an

\(^{28}\) The author does note that prior to 1968 the decline in the proportion of the legal private sector was primarily attributed to the expansion of the proportion of the socialist sector. (Ibid., 35).

\(^{29}\) Gábor, “Second Economy and Socialism,” 353. The author notes that there are no reliable estimates of the size of the second economy in Hungary and provides his estimate on the basis of the widely quoted 16%-18% estimate by Rezso Nyers.


\(^{31}\) Article 17 of the Constitution of the USSR of 1977. This provision was present in the earlier Soviet Constitutions as well, for example, Article 9 of the Constitution of 1936.
independent tailor, or making rugs from material woven by the maker (it was allowed to make rugs from material provided by the customer).\textsuperscript{32}

In Hungary the scope of private scale economic activity was determined by the policies of the government and not the Constitution. The Hungarian Constitution contained a provision that recognized “the socially useful economic activities of small-scale producers,” but, besides warning that “private property and private initiative must not be prejudicial to the interests of the community,” did not detail what those activities were.\textsuperscript{33} The history of the Hungarian government’s treatment of small-scale industry from the beginning of the communist regime to its end provides a good example of this attitude in practice.

First, from 1946 to 1953, due to official policies, the number of industrial workers engaged in private small-scale industry decreased from 57 percent to less than 4 percent.\textsuperscript{34} In 1953 a new policy was introduced that promoted small-scale industry by granting credits and providing materials to artisans and licenses for establishing small-scale industrial enterprises more available; within a year the number of license-holders more than doubled.\textsuperscript{35} The new policy was sabotaged soon afterwards, only to be revived in 1957 now even providing subsidies to those private activities that complemented the


\textsuperscript{35} Ibid.
activities of the state sector.\textsuperscript{36} Within a year the advent of private industry was slowed down yet again.

The boom of small industry, that had only just begun, was soon stopped by the central determination to adjust artisans’ incomes to the earnings of the workers of state-owned industrial enterprises and by the renewed efforts to make artisans join cooperatives. From 1958 onwards, difficulties of material purchase, prices pressed low by official regulations, and discrimination (compared with the position of workers of socialist industry) played a part in the year-to-year decrease of the number of artisans, and the output of small industry was also failing. (Gábor and Horváth 1987, 134 – 135)

After the reforms of 1968, small-scale private industry was revived again, but this time the central authorities tried to divert its activities towards the service sector rather than industrial production. To this end, the tax burdens of private service providers was eased and the new ventures were exempt from taxes.\textsuperscript{37} Finally, in the 1980s private small-scale industrial production was slowly revived again, starting in 1981 with the easing of their tax burden and then in 1982 with the introduction of new forms of private economic organization already discussed above.

The Hungarian approach, thus, was different in at least two ways. First, the Constitution of the Soviet Union communicated to the people the country’s low tolerance for private activity, whereas the Hungarian constitution communicated its acceptance. Second, the prevailing form of control over forms of private activity in the Soviet Union was through the criminal code; the Hungarian government often resorted to financial controls like taxes to curb unwanted undertakings.

The result of the different approaches was that Hungary, proportionally, had the largest legal private sector in the region and the Soviet Union the smallest. “The Soviet

\textsuperscript{36} Ibid.

\textsuperscript{37} Ibid.
Union has permitted the lowest level of legal private commercial activity in Eastern Europe. The largest amount is in Hungary, where between 1970 and 1983 the number of private shops and restaurants doubled, to 19,293, to constitute 26 percent of all shops.³⁸

The closest to legally organized private production units within the primary sector in Hungary were what Kalman Rupp called semi-private enterprises.³⁹ The 1967 law on agricultural cooperatives encouraged the latter to establish industrial subdivisions to produce auxiliary items for agricultural work. Semi-private enterprise was a private equivalent of a cooperative’s industrial subdivision. It was established and run by entrepreneurs, but formally was a part of a cooperative. The entrepreneurs agreed to pay the cooperative a certain percentage of their income (sometimes up to 60 percent) in exchange for official status. “The co-op gives us a letterhead and a bank account; that’s it. In exchange we have to deliver 60 percent to them.”⁴⁰ The abolition of certain restrictions (such as on inter-firm trading and labor mobility) by the economic reform of 1968 made it possible for private enterprises to obtain various inputs and resources without necessarily resorting to the help of the black market.

The major difference between these semi-private enterprises and their Soviet counterparts is in their legal status. The semi-private enterprise in the Soviet Union was an illegal activity set up against the law, normally by someone with power and connections or money under the facade of a state industrial enterprise or an agricultural

³⁷ Ibid., 135.


⁴⁰ Ibid., 2.
cooperative for personal benefit. Whereas the Hungarian semi-private enterprise had ‘a letterhead and a bank-account,’ its Soviet counterpart operated absolutely incognito:

The infiltration takes place in the following way. A private enterprise will coexist, under the same name and under the same roof, with a state factory. This kind of private operation cannot exist on its own without the cover of the state facility. In this symbiotic relationship the state factory operates perfectly normally. It is run by an officially appointed manager and technical supervisor, and it manufactures goods as called for by the state plan, goods that appear on the factory’s books and are distributed through commercial channels for sale. In criminal cases dealing with this sort of underground operations such goods are referred to as being “accounted for.” But alongside these official goods the same factory is manufacturing goods whose existence is not reflected in any documents; they are unaccounted for, or, to use underground business jargon, ‘left-hand’ goods.

The ‘left-hand’ goods are produced with the same equipment, operated and supervised by the same personnel, as the official goods. But the raw materials and other supplies needed for their manufacture and the labor costs are paid for not by the official factory administration but by some private person. This person owns the goods, sells them, and profits by their sale. It would not be irregular to call such a person the owner of a private enterprise. Tens of thousands of these underground factories scattered throughout the country manufacture knitwear, shoes, sunglasses, recording of Western popular music, handbags, and many other goods much in demand by consumers.

...There are such close links between the various centers that an underground system of private industry may be said to exist alongside the official state system.

There are companies and multimillion-ruble family clans that own dozens of factories and have access to a tentacular sales network, but there are also small-time entrepreneurs, who do not always own even a whole factory, but only a single workshop. (Simis 1982, 147)

As was already mentioned the establishment of these ‘private’ enterprises or any other type of production activity in the Soviet Union was a privilege of the people either already in power and with connections that could utilize the state or cooperative resources to produce for private gain or people with enough money to pay their way through the system. The Hungarian semi-private enterprise was an entrepreneurial venture in all its respects (it is worthwhile to extensively cite Kalman Rupp’s
observations regarding the semiprivate enterprise so that the reader could get a feeling of how much different it was from its counterpart in the Soviet Union):

As a first step in the establishment of a semi-private plant, the potential entrepreneur contacted the leaders of the cooperative. He then presented his plans for the proposed plant, including an assessment of the expected profitability of the activity. The co-op leadership assessed the offer and an informal agreement was negotiated between the two parties.

....The entrepreneur bought machines, machine parts, and tools as ‘scrap materials,’ or purchased them from private artisans. In some cases the leader of the plant had been a private artisan himself before establishing the semiprivate plant, and he brought his machinery to the co-op. In the earlier phases of the emergence of semiprivate plants the initial investments in equipment were financed predominantly by plant leaders [the entrepreneurs], sometimes with ‘specialists,’ highly skilled workers and technicians, who were also parties to the venture. The co-ops did not provide any cash, or only very limited amounts. Usually no bank credits were used, and there were no free investment grants from the state to finance the establishment of the plants. (Rupp 1983, 11-12).

The semiprivate enterprise in Hungary benefited its ‘mother’ organization overall and not only its managers, as was the case in the Soviet Union:

As a net result, the presence of semiprivate plants led to enormous growth and agricultural modernization in those agricultural co-ops that had semiprivate industrial facilities. Co-op level profits derived from semiprivate plants were also used to increase wages in agricultural divisions and to improve services and fringe benefits for co-op members, including the aged. The central managers of the co-op also benefited in terms of increased wages, fringe benefits, and prestige. Often, co-ops that had substantial semiprivate components were in a dominant position in co-op mergers, which further added to the prestige of co-op leaders and to co-op organizational growth. (Rupp 1983, 14).

Semi-private enterprises in Hungary that first appeared ‘outside the routine channels of formal organizations’ in a few years achieved a high degree of institutionalization.41 Even during the beginning of the 1970s when the conservative side of the government came to dominate the decision-making process and administrative pressure was asserted on the cooperatives that had semiprivate enterprises, the enterprises

41 Ibid., 10, 19.
were not dismissed or declared illegal, but the central management of the cooperatives simply took over their assets (by buying their equipment to put the production process completely under cooperative ownership). Semi-private activity that proliferated in the Soviet Union constituted a crime, because it utilized state property for private gain, for which the USSR Criminal Code prescribed a maximum sentence of five years with confiscation of property.\(^42\) Normally, people charged with such crimes were also charged with stealing socialist property and abusing their official position.\(^43\)

False reporting of enterprise capacity was similar to the establishment of these ‘private’ enterprises, because the excess production was sold through the black market to benefit the enterprise management.

At the level of regular workers private industrial activity in the two countries differed as well. The Soviet worker was either illegally paid for his/her compliance to participate in underground production or used state premises to fulfill a private order. The latter constituted a crime as described before, although was rarely punished for its insignificant scope.\(^44\)

In Hungary it appears that the market, even though limited, and the lifting of restrictions on labor mobility gave the worker the power to bargain for better wages within the framework of state production.\(^45\) Managers had to find ways to provide

\(^42\) Chalidze, *Criminal Russia*, 168. Chalidze also notes that the Criminal Code itself was not very clear about what exactly constituted the crime, but that the Commentary to the Criminal Code of 1971 clarified it as follows: “(a) giving a private enterprise the appearance of a socialist organization (pseudo enterprise, pseudo cooperative) or the appearance of a separate unit of an actually existing socialist enterprise (pseudo-workshop, pseudo-branch); (b) carrying on unrecorded production within a socialist enterprise for the purpose of private profit.” (Chalidze, *Criminal Russia*, 169.)

\(^43\) Ibid., 170.

\(^44\) Ibid.
additional pay to good workers within the wage limit restrictions imposed by the state. At the factory level this was often accomplished through the assignment of over-time work that often paid double the regular hourly wage. “The basic norm becomes the object of bargaining and dispute; an agreement is then concluded which serves, at least temporarily, to guarantee a stable production quota for the factory managers and a stable wage for the workers.”

Another form of private activity in Hungarian enterprise was carried out through part-time labor contracts. According to Róna-Tas, even though the government, up until the 1980s, tried to keep private activity out of the state sphere, part-time legal labor contracts nevertheless took place, normally for jobs that required professional expertise.

This limited discussion of private activities in the two countries has been presented to demonstrate how different their dominant form in the two countries was. Whereas in the Soviet Union it was primarily illegal, in Hungary it found legal ways to operate. Even a brief look at the literature on the second economy in the two countries reinforces this observation: while any study on the second economy in the Soviet Union necessarily boils down to the discussion of its criminal nature, studies on the Hungarian second economy stress the existence of a large segment of legal private activity among the general population primarily carried out on a part-time basis.

This discussion carries a number of applications for the current research. First, it demonstrates that, institutionally, the Hungarian economy was more receptive to private

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45 Kemeny, “The Unregistered Economy,” 353.

46 Ibid.


48 See the works cited in footnote 23 of this chapter.
activity than the Soviet economy. Second, and as a consequence of the first, the black
market and economic corruption were an integral part of the Soviet economy, due to its
predominantly criminal nature, which was not the case in Hungary. Third, the main
strategy of private activity in the Soviet Union was to avoid being caught by the
authorities; there was no threat of competition or any other market-induced limitation,
because there was no market; the only competition was the poorly operating state sector.
Hungarian entrepreneurs, on the other hand, operated in a less restricted environment
with some elements of the market present, which meant that the rationale of
organizational operation was absolutely different from that of a typical Soviet
entrepreneur. Fourth, whereas the Hungarian communist government often resorted to
economic means for regulating private activity, the Soviet government outlawed the
majority of it and used the criminal code to curb it.

Two important observations are in order. Kalman Rupp in his study of Hungarian
semi-private enterprises notes some discrepancies between conclusions presented in
literature on the Soviet second economy and the findings of his study. First, he finds, as
was illustrated above, that the presence of a semi-private enterprise was beneficial to the
cooperative with which it was affiliated overall, and not just its leaders.49 In contrast,
literature on the Soviet second economy only stresses the personal gains of cooperative
leaders obtained through bribes as the only gain from establishing ‘private’ enterprises.50
Second, which logically ties in with the first observation, the literature on the Soviet
second economy, particularly in the production sphere, portrays it as a realm of the

50 Ibid.
privileged. The observations on the second economy in Hungary rather showed that it was a venue that provided opportunities for the ‘unprivileged’ strata of the society:

Second-economy production and, to some extent, markets are seen as important mechanism toward greater autonomy and greater bargaining power of lower participants in the hierarchical structure of the planned economy.... In this context, semiprivate plants provide opportunities for entrepreneurs, workers, and cooperatives – individuals and organizations that are being denied access to resources allocated to the dominant groups in the planned economy. Most of the second economy is for ‘second-class’ rather than ‘first-class’ passengers. (Rupp 1983, 99).

These discrepancies between the literature and Rupp’s empirical findings seem to demonstrate not the inadequacy of the empirical observations on second economies in communist states overall, but rather the differences between the second economies of the Soviet Union and Hungary. As with the assumptions regarding the working of a socialist enterprise, which have been discussed above, the observations on the second economy in the communist states were primarily based on research in the Soviet Union. The assumption that all communist countries were alike was upheld here as well. As a result, any discussion of the second economy came to be dominated by examples of criminal second economy activities and the corrupt nature of the government officials. This is not to say that the second economy in Hungary did not have those elements. But it is to demonstrate that predominantly, private production activity on a large scale in the Soviet Union was a prerogative of the privileged and was an illegal undertaking from start to end, and in Hungary it was legal and common among regular people.

**Legitimacy and Corruption**

One important point to remember when analyzing the impact of government policies on economic development is the degree of their legitimacy. Legitimacy indicates
how much laws and regulations are adhered to by the people. By implication, low levels of legitimacy entail high levels of corruption and black market activity.

Legitimacy of the government varies from country to country depending on the legal tradition of a particular country. According to Merryman, a legal tradition reflects historically developed attitudes about the role and nature of law in the society and about the way it should be implemented and used.\textsuperscript{51} Legal tradition translates cultural values into the legal system.\textsuperscript{52} The legal traditions of Hungary and Russia had been developed on different principles.

Hungary is often referred to as a country of lawyers. According to Pogany, pre-communist Hungary was a country where the rule of law dominated.

By and large, ‘the absolute supremacy or predominance of regular law’ was a feature of Hungary’s pre-Communist legal system, while law was reliably enforced, general in application and ‘applied uniformly to all cases within its terms.’ The law was therefore ‘predictable and calculable in its general consequences.’ In addition, ‘equality before the law, or the equal subjection of all classes to the ordinary law of the land’ was at least formally recognized in Hungary during much (though not all) of the first half of this century and, increasingly, during the latter decades of the nineteenth century. (Pogany 1999, 144)

This tradition of legalism was widely preserved through communist times so much so that when the country stepped on the road to transition in the 1990s it was one of the few to have an operating legal system and a high degree of constitutional legitimacy. ‘In Hungary, the rule of law has been astonishingly well established at this level [the


\textsuperscript{52} Ibid.
constitutional level]. Hungary probably has a better track record on this question than most democracies with longer pedigree.”

The Russian legal tradition is drastically different. In general terms, it is based on two factors: absolutism and the communal organization of society. Absolutism Russian style entailed an existence of some sovereign that guided the country in the right direction – the one who knew the ‘truth’. Before 1917 the Tsar was such a sovereign, who was often referred to as ‘our father Tsar’ (batushka zcar’); after 1917 the communist party and its leaders (‘Father Stalin’ and ‘Grandpa Lenin’) replaced the Tsar. In such a system the sovereign becomes the final vestige of authority that supercedes the law.

The communal form of life that dominated pre-Revolutionary Russia (which was described in chapter 2) upheld this system by placing all its faith and trust in the sovereign and, at the same time, detesting and neglecting rules and laws. The Tsar was father and protector of the people, but laws were infringements of the outside world on the tightly knit community.

In Russian peasant communes, most affairs were regulated by customary practices, which were generally regarded as having greater significance than state law. Matters were decided on an ad hoc basis ‘according to justice’ rather than on the basis of carefully spelled-out legal norms. The peasants’ attitude toward state-derived law was one of suspicion and, when possible, disobedience...


55 V. S. Barulin provides a good analysis of what he calls a regime of party-state absolutism that existed in the Soviet Union. ‘Party-state absolutism is a system of society’s organization in which one party, in this case the communist party, with the help of the state determines the strategy and tactics of life for the society overall and for all its spheres and components, for all levels of the society’s life, including private life.” (V. S. Barulin, Rossiiskiy Chelovek v XX Veke: Poteri i Obreteniya Sebya (Sanct-Peterburg, Russia: Izdatelstvo ‘Aleteiya,’ 2000), 25.)
‘The peasant deemed it ‘immoral’ to deceive a neighbor or relative, but to deceive a government official or landlord was quite a different matter – indeed, that was a moral deed worthy of encouragement. (Newcity 1997, 51).

Consequently, the legal tradition that developed in the Soviet Union was one that placed the elite above the law, but ‘allowed’ ordinary people to break the law whenever possible, because it never possessed ultimate authority anyway.

These differences in the two countries’ legal traditions translated themselves in the much higher level of criminalization and corruption in the Soviet economy, as could be clearly seen through the development of its second economy. Simis, a former Soviet citizen, summarized very well just how saturated with corruption Soviet society was:

Thus the Soviet Union is infected from top to bottom with corruption – from the worker, who gives the foreman a bottle of vodka to get the best job, to Politburo candidate Mzhavanadze, who takes hundreds of thousands of rubles protecting underground millionaires; from the street prostitute, who pays the policemen ten rubles so that he won’t prevent her from soliciting clients, to the former member of the Politburo, Minister of Culture Ekaterina Furtseva, who built a luxurious suburban villa at the government’s expense – each and every one is afflicted with corruption. (Simis 1982, 297).

Ideological Acceptance of Private Activity

Last, but not least, the ideological and common acceptance of private activity and entrepreneurship were drastically different in the two countries as well.

One of the major postulates of the Marxist-Leninist ideology of the Soviet Union was public ownership of the means of production. The Soviet Constitution of 1936 stated that the foundation of the Soviet economy was the socialist ownership of the means of production with the complete elimination of private ownership of the means of production.56 The Constitution of 1977 omits the latter part, but instead it specifies what
may constitute personal property of citizens, and that does not include the means of production – ‘articles of everyday life, personal consumption and convenience, the implements and other objects of a small-holding, a house, and earned savings.’\(^{57}\)

In contrast, the Hungarian Constitution of 1949, which was overall drafted after the Soviet Constitution of 1936, stated ‘In the Hungarian People’s Republic the bulk of the means of production is owned, as public property, by the state, by public bodies or by co-operative organization. Means of production may also be privately owned.’\(^{58}\) It did not specify what constituted private property, but guaranteed constitutional protection of all property acquired by labor and contained a provision warning that private property and private enterprise must not run counter to the public interest.\(^{59}\) This small feature is normally disregarded in the comparison of the Soviet Union and Hungary. It nevertheless indicated that the Hungarian communist ideology was much more tolerant of private ownership and activity than the ideology that developed in the Soviet Union.

This was clearly manifested in the official discourse of the party leaders as well. In 1962 János Kádár introduced a new policy approach based on the following principle – ‘Whoever is not against us is with us!’ As was mentioned in chapter 3 this policy line brought acceptance of the ‘alien’ elements as an integral part of the society working for the benefit of its people. The private entrepreneur (the bourgeois) was no exception. In his reports to the Party’s Congresses in 1966 and 1970, for example, Kádár said:

Small people and the petit bourgeois citizens of towns who work as small craftsmen and small traders are also respected members of our society. While not

\(^{56}\) Article 4, Constitution of the Union of Soviet Socialist Republics, 1936.


\(^{58}\) Article 4, Constitution of the Hungarian People’s Republic, 1949.

\(^{59}\) Article 8, Constitution of the Hungarian People’s Republic, 1949.
giving up the fight against the spirit and actual cases of parasitism, everybody considers the work of a given number of small craftsmen and small traders as useful. They fill a social need and therefore their activity is socially useful; and their work will be needed in the future also. (Kádár 1966)

In our society the number and proportion of the small bourgeoisie, of small craftsmen, traders, and other representatives of the private sector are small. For the benefit of our great social aims the small bourgeoisie also follow us. They have fitted into the new social order. They accept the aims of building a socialist society and with the work of the conscientiously working majority among them, especially in the fields of services and supplies, they usefully serve the public interest, the assets of our society. (Kádár 1970)

Whereas these were very minimal remarks in speeches that lasted three to four hours long, they nevertheless illustrated the specifics of Hungarian socialism that was alien to Soviet culture, where this kind of a discourse became only possible after Gorbachev’s policy of glasnost was introduced.

Likewise, Szelenyi points out that in Hungary the term bourgeois by the middle of the 1970s began to acquire a positive meaning: it was starting to refer to people with more independent thinking, with values and behaviors that were different from the collectivist values promoted by Communists.60 By the 1980s the term was beginning to acquire entrepreneurial connotation.61 In the same vein, Bogel points out that by the 1980s the commonly accepted image of entrepreneurs in Hungary portrayed them as ‘a kind of Robin Hood battling against an unsympathetic and bureaucratic state, definitely growing rich and becoming the men of the future, so long as they were smart and assiduous enough.”62

61 Ibid., 51.
In contrast, attitudes toward private activity in the Soviet Union were always negative, portraying private entrepreneurs as thieves and thugs. Here is how an American observer, who spent the years when the small industrial cooperatives were being born in Russia observing their development, described the common feelings about cooperators (first Russian legal entrepreneurs) in the late 1980s:

By April Fool’s Day 1989 there were officially ninety-nine thousand three hundred cooperatives employing two million people in the USSR., and the conflict had turned to violence. Cooperators, the ‘hooligans’ whom Pravda endlessly referred to as ‘wheeler-dealers and scoundrels,’ were shot and beaten, their business set ablaze by professional arsonists abetted by citizens pouring gasoline on the flames. Many cooperators would be stoned or clubbed with planks. So fierce would the hatred become that nineteen cooperatives were set afire in one day in the Turkmenian city of Nebit-Dag, with six fire engines called to the scene destroyed by a mob of black marketeers, alleged plainclothes by KGB agents, and disgruntled crowds screaming ‘capitalisti’ [capitalists]. Other cooperatives would meet the same fate. Firebombings and black-market hand grenades were a favorite method of destruction, as were the burning and drowning of cooperative sheep and cattle, with no thought given to the country’s abominably widespread hunger. After Vladimir Plotnikov’s cooperative pig farm, built atop a garbage dump on the outskirts of Moscow, was burnt down under suspicious circumstances, local residents openly rejoiced at the fate of Plotnikov and his ‘bourgeois pigs.’ (Copetas 2001, 47).

These differences in attitudes towards private activity were responsible in one country, Hungary, for providing a fertile ground for the development of private entrepreneurship when all the institutional barriers were finally removed, and in the other, Russia, for creating another obstacle that private entrepreneurs had to overcome in addition to a myriad of institutional barriers and criminal developments.

63 The word ‘conflict’ here refers to the conflict that a regular Soviet man making little money and leading a miserable life after years of devoted work for the state must feel inside of him when he sees a young prosperous cooperator.

64 Pravda was the party’s official newspaper.
Conclusion: Implications for Transition

The discussion presented in this chapter is just a sketch of various aspects of the economic sphere in which Hungary and Russia differed during their communist development. The logical question that one may ask next is what implications does this have for the countries’ transition process in the 1990s? Let me present just a few general observations here. The next four chapters will discuss the implications for enterprises and businesspeople as was observed through a survey conducted in Spring/Summer of 2004 in the two countries.

Politically, the transition processes in the 1990s in the two countries progressed pretty much along the same lines of legal tradition as was described above: Hungary opted for a constitutional democracy while Russia settled for a strong presidential republic.

The Hungarian Constitution establishes a strong Constitutional Court that already in the beginning of the transition process widely exercised its powers and struck down a large number of laws passed by the Parliament as unconstitutional. According to Örkény and Scheppel it is not uncommon for the Hungarian President to consult with the Constitutional Court on the constitutionality of a law before signing it or on its own competency; or for the Prime Minister to ask the Court for advice on how a program can be redrafted to comply with constitutional provisions.65

In stark contrast, the two presidents that Russia has had since the beginning of the transition process have clearly displayed their disregard for, and superiority to, the ‘supreme law’ of the country. In September of 1993, as a result of months-long tensions

65 Örkény and Scheppel, ‘Rules of Law,” 60.
and disagreements between the executive and the legislative branches and after a number of attempts to curb the powers of the latter through some unconstitutional moves, President Yeltsin signed a decree completely annulling the power of the legislative body (the power of the Supreme Soviet and the Congress of People’s Deputies) and introducing a constitutional reform in the Russian Federation. The President’s actions were in violation of the Russian Constitution, which prescribed that if the President attempted to dissolve a legally elected legislative body, he would lose his powers automatically. The Supreme Soviet and the Congress of People’s Deputies issued a resolution stating that as a result of his actions, the power vested in President Yeltsin ceased to exist, and the Constitutional Court upheld the legislative resolution. As we know, though, Boris Yeltsin not only remained in power, the legislature was indeed dissolved, elections to the new legislature were held within a few months, and a new Constitution was drafted to give the president almost unrestricted powers. The resultant regime, as Kagarlystky described it, was “a particular authoritarian regime, and Yeltsin stands closer to Pinochet than to Reagan or Thatcher.”

The current Russian President, Vladimir Putin, not only welcomed the system that he inherited from his predecessor, he developed it to a much higher level:

The main characteristics of Mr. Putin’s regime are the brutal crackdown in Chechnya; the neutering of political opposition; the creation of a rubber-stamp legislature; the crushing of media independence; the strengthening of the siloviki of the military and security establishment; the emergence of a cult of personality; and a bullying assertiveness towards Russia’s neighbors. (Anonymous 2004, 8)

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66 To preserve his power, in March of 1993 President issued a decree placing Russia and its legislative authority (The Supreme Soviet and the Congress of People’s Deputies) under administrative rule. The move blocked the legislature from passing laws that would contradict presidential decrees and orders and was in violation of the constitution.
The legal tradition has had its mark on the economic transition as well. As was mentioned earlier, Hungary is believed to be one of the few countries that embarked on the transition process equipped with a legitimate legal system:

“In contrast to the Soviet Union and the former socialist countries of Eastern Europe, which have had to lay the foundations of a new economic legal order after 1990, Hungary arrived at the change in its political, social and economic systems with a relatively developed system of law that was partially equipped of the requirements even of a market economy, one that was serviceable, and it did work, once stripped of its attributes of socialist ideology.” (Sárközy 1993, 3)

For Russia, this is a dream that is still to come true. The legal order that the country inherited from the Soviet Union was anything but legal; ‘for the Soviet manager the notion that the purpose of the law is to create a framework to encourage and assure prosperous business organizations and efficient transactions was considered absurd.”

The perception of laws as existing only to be broken continues.

Likewise, the Hungarian economy after ten years of transition is still much more receptive to small-scale private initiative than the Russian economy. The existence of a multitude of various private legal small-scale organizations during communist times and the accessibility of private small-scale activity to the public in general had laid the foundation for the development of private entrepreneurship during the transition process:

Post-transition Hungary inherited an environment that was moderately favorable to small-scale business due to reforms beginning in 1968 and particularly in the 1980s. The post-transition years did not jeopardize the achievements of the reforms, nor were public administration and government disrupted. Consequently, social and political instability – a critical factor for potential entrepreneurs and owners, in particular small ones – never reached threatening levels.

The social attitude towards SMEs [small and medium size enterprises], SME owners and entrepreneurs is fairly positive, and social perception of private

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property rights is good....Criminal organizations, although present, do not appear to threaten social, economic and political stability. Although bureaucratic red tape is a problem for SMEs, it is of decreasing importance. (Dallago 2003, 78)

The Russian business environment is drastically different from the environment that entrepreneurs enjoy in Hungary:

After two years of rapid growth, measured SME expansion stopped in 1994. This resulted from concealment of an increasing part of the SME sector from official statistics, loss of their exclusive position, and the withdrawal of economic resources from the sector, reflecting the changing functions of SMEs in the Russian economy. Economic barriers to market entry rose significantly while administrative barriers have largely remained unchanged over the last decade. (Radaev 2003, 131-132.)

The share of small and medium size enterprises in the overall number of enterprises and employment in Hungary is even greater than the EU average. According to a Hungarian research company, GKI Co., the share of small and medium size businesses (enterprises employing less than 250 people) in the European Union by 2001 constituted 98.7% of all businesses, over 90% of which were micro-businesses employing less than 10 people. According to the same report, the proportion of SMEs in Hungary by 2001 were 99.9%, ninety six percent of which were micro-businesses.

Obtaining a clear picture of the proportion of small and medium size businesses in Russia is complicated due to the problems with the definition. Official statistics only distinguish between two groups of businesses – ‘small businesses’ and ‘medium and large businesses.’ The definition of the size of a small business varies for different types of economic activities – in manufacturing, construction, and transport it is a business

\[ \text{www.gki.hu} \]


\[ \text{Ibid.} \]
employing not more than 100 people; in agriculture - not more than 60 people; in retail trade and services - not more than 30 people; and not more than 50 people in every other sector. According to calculations by the Center for Small Entrepreneurship, the proportion of small businesses in 2003 in Russia was 66.5% including individual entrepreneurs and farms, both of which are considered small businesses in the Russian official statistics. According to the same source, the proportion of medium-size businesses (up to 250 employees) in 2003 was 27.8%; and the proportion of enterprises with more than 250 employees was 5.7%. The total percentage of small and medium-size businesses overall is quite high – 94.3%, but considering that the small businesses group includes enterprises with as many as 100 employees, the proportion of micro-businesses must be very minimal. In other words, the country’s market is still dominated by larger size enterprises than one would normally find in a developed market economy. The economy overall is dominated by oligarchs with a high concentration of wealth and power in a few hands.

Finally, the best way to point at the different natures of the transition processes at the enterprise level in the two countries is through the following observation. When literature describes difficulties that Hungarian enterprises were facing during transition, it points to the decrease in the demand for their product; thus stressing the market logic of their behavior prior to transition. When literature describes difficulties that Russian


73 Ibid.

74 Ibid.
enterprises were facing during transition, it points to the decrease in state orders for their product, thus stressing the command economy logic of their behavior prior to transition.
CHAPTER 5

SURVEY METHODOLOGY AND RESPONDENTS’ DESCRIPTION

The next few chapters present analyses of the survey data. This brief chapter describes the survey methodology, the questionnaire and the data collection process, presents a descriptive summary of the survey respondents and their companies, and compares, where possible, the respondents to the companies that refused to participate in the survey. Chapter 6 focuses on the analysis of the respondents’ business practices. Chapter 7 describes the reported outside constraints that the respondents face every day, and the reported political and economic events that have had a lasting effect on their business environment and their work.

Survey Methodology

The survey of manufacturing enterprises in the Northern Great Plain region of Hungary and the Saratov region of Russia was carried out from February to July of 2004. The target was to obtain a minimum of 50 responses for each country (1 response per enterprise), because it is the lowest number of observations from which, statistically, generalizations onto the population can be made. Obtaining a much higher number of responses was not feasible due to financial and time constraints. Responses were to be obtained from one of the top managers of each company – someone who participates in the decision-making process and is aware of what is going on in the organization overall.

1 In the further analysis ‘enterprise’, ‘company’, and ‘organization’ will be used interchangeably to refer to the respondents of the survey.

2 For a detailed description of the selection of the regions for the survey see Appendix 1.
Since most literature cites a 30% non-response rate as a norm, and I did not find any examples of surveys conducted in similar circumstances that could prove otherwise, I opted to use a conservative estimate of 50%. So, I started the survey with a sample of 100 Hungarian enterprises. After a month and a half of data collection only about 30 responses were obtained from that sample; the rest of the companies from the sample either did not want to participate, had wrong phone numbers, did not list phone numbers, did not pick up the phone, or did not exist anymore. So, another random sample of 100 companies was drawn to obtain the necessary number of responses (the companies from the first sample were included in the population list when the second sample was drawn). In Russia a sample of 200 companies was drawn from the beginning.3

A total of one hundred and nine responses were obtained – fifty-four from Hungary and fifty-five from Russia. Four of the fifty-five Russian companies were discarded from the analysis, because they were service providers only. In Hungary the majority of the responses (44) were obtained through structured personal interviews; the rest were sent out and received by mail, fax, or e-mail with follow-up phone calls conducted to clarify ambiguous answers. Six students from Nyíregyháza College and the University of Debrecen and two interpreters were hired to conduct and translate the interviews.4 In Russia a local research center Miromark5 collected the data through structured personal interviews (24), phone interviews (30), and e-mail (1).

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3 See Appendix 2 for details on the sampling procedure.

4 The interviewers had to go through a training session, during which the questions of the survey were explained to them, and they were given instructions on how to conduct an interview. After the data were collected and translated, I either met with the interviewers personally or contacted them via e-mail to clarify the answers. After each interview was translated I met with the translator to clarify the meaning and to rephrase the parts that were not clear.
The survey was designed to meet two goals. The first goal was to collect information on the question whether or not businesspeople from one country systematically display a more market oriented behavior than businesspeople from the other country as can be seen through their company’s business practices. The second goal was to isolate and then compare outside factors including what political and economic events the businesspeople in the two countries believe have influence on their business environment and their work. I have hypothesized that 1) Hungarian businesspeople will systematically display more market oriented behavior than Russian businesspeople, and 2) regardless of the political and economic developments in the two countries in the last two decades, the businesspeople in both countries will perceive no or little change in their business environment and their work as a result of those events.

The questionnaire consisted of three sections: 1) Organization’s Description and Respondent’s Information, 2) Business Practices, and 3) Personal Opinion.  

The information from the first section of the survey was to provide the descriptive data about the enterprises and respondents to control for the effects of variables that have been found in other studies to have independent effect on managerial behavior and business practices. In other words, whether the company is in private or state ownership, foreign or domestic ownership, whether it has been privatized or not, the size of the company, when the company was established, the age and gender of the respondent, and

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5 www.miromark.ru (in Russian). The Russian interviewers were given instructions regarding the survey and the questionnaire as well. After the data were collected, I met with the interviewers to discuss the answers that were not clear.

6 See Appendix 3 for a copy of the questionnaire.

whether the respondent has ever had western style management training or not may each have more influence on a respondent’s behavior than what country the respondent came from, and it is necessary to account for those independent effects in the analysis.

The second part of the questionnaire focused on how the companies operate - whether they have a mission statement or not, whether they set strategic goals and develop a plan to reach those goals or not, whether and how they evaluate their organization’s performance or not, whether they monitor their competitors’ performance and compare their product to their competitors’ product or not, and whether they measure their customers’ satisfaction or not. The companies were also asked to specify what their mission statement was, what their goals were, how they developed their plan or strategy, and what measures they used to evaluate their organization’s performance.

The last three sets of questions of this second part of the questionnaire were based on the concept of market orientation developed in the field of marketing and defined as “a set of activities or behaviors relating to market intelligence gathering, market intelligence dissemination cross-functionally within a firm, and the action responses based on this intelligence.” Different measurements have been developed to measure market orientation, but the overall idea is to determine whether or not the organization gathers information about its customers and competitors, disseminates the information among different departments, and takes actions in response to it. Considering how new

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the concept of market orientation must be to the former command economies, I opted to shift away from using some pre-determined categories to measure it and rather let the businesspeople tell me if the concept had any importance for their work and what methods they used to measure it. The three sets of questions, thus, were developed with the focus on competitors, product’s quality, and customers (questions 17 through 19.2, Appendix 3). The first question of each set assessed the manager’s view of how important a particular component was for an organization in their business environment; the second question of each set characterized how often their own organization paid attention to it, and the third question captured what methods their organization used to measure it.

It is appropriate to clarify the use of the term “market orientation” in the analysis below. From now on the term will not refer just to the concepts described above but will be loosely used to refer to any behavior that seems to be based on free market principles and is in contrast to behaviors resembling the traditions of the command economy. In other words, the analysis attempts to detect the presence of the new market-oriented mentality and the traces of the old traditions in the responses of the respondents. No pre-determined sets of behaviors that can be identified as market-oriented are employed but rather the attempt is to characterize respondent’s behavior as market-oriented or not.

The third part of the questionnaire captured political and economic events the respondents thought had had an influence on their business environment, to what extent those events influenced their business environment, their work, and the relationship
between businesses and government, and the characteristics of that influence in each case.

The questionnaire consisted of a mixture of open-ended, yes/no, choice, and index questions. Whereas the use of most of these types is self-explanatory, I have to briefly explain the seven-point index to avoid any confusion in the discussion below. The index was used to measure the degree of importance of a particular behavior (questions 17, 18, and 19) or the extent to which a particular event had influence on the respondents’ business environment, their work, and the relationship between government and businesses (questions 22, 23, 24, and 25). The index ran from 1 to 7 with 1 standing for ‘no importance’ or ‘no influence’ whatsoever and 7 standing for ‘great importance’ and ‘great influence’ (Figure 1). For example, an answer of 1 to question 19 “Is it necessary for the organization in your business environment to regularly evaluate its customers’ satisfaction” would mean that it is not necessary at all for an organization in their business environment to regularly evaluate their customers’ satisfaction, and an answer of 7 would mean that it is very necessary; the answers in between would indicate the degree of importance with 4 normally suggesting that the respondent is not sure if it is important or not.

**Figure 1.** The seven-point index used for questions 17, 18, 19, 22, 23, 24, and 25.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>not at all</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>to a great extent</td>
</tr>
</tbody>
</table>

The survey was administered in the native language in each country. The questionnaire was translated into Hungarian by an English teacher from Nyíregyháza College whose native language is Hungarian. It was back-translated into English by
another English teacher from Nyíregyháza College whose native language is English, to check the accuracy of the Hungarian translation. I translated the questionnaire into Russian myself and, thus, a back translation was not necessary. Two pre-test interviews were conducted in Hungary - one with a manager from a large company in Nyíregyháza (one of the bigger cities in the region) and the other with a manager from a smaller company in a small town; some modifications were made to the survey instrument as a result of the pre-test.

The Regions

The territory of the Russian Federation, that is usually referred to as simply Russia, covers a total area of 17,075,200 square kilometers, borders fourteen countries, has a population of 143,782,338 people, and incorporates eighty-nine administrative divisions of various types - 49 oblasts, 21 republics, 10 autonomous okrugs, 6 krays, 2 federal cities, and 1 autonomous oblast. Its territory stretches from Europe to Asia. The Saratov Region is located in the South West of the country (see Figure 4.1, Appendix 4).

Hungary covers a territory of 93,030 square kilometers, borders seven countries, has a population of 10,032,375 people, and is administratively divided into 19 counties and the capital city. The North Great Plain Region is located in the North East of the country (see Figure 4.2, Appendix 4).

The diversity of climates, geographies, ethnicities, and cultures in Russia make it a difficult country to study. Almost every administrative unit is unique. At the same time its long history of center-periphery division provides a good starting point. All

throughout pre-communist and communist history the center – first St. Petersburg, and then Moscow, absorbed most of the country’s resources. The common perception during communist times was that the whole country ‘was working’ for Moscow. It was not unusual for a product of a local factory of a small provincial town to only be found in the stores of Moscow. Its infrastructure has always been better developed; its residents have always enjoyed a privileged living; and it has always been on the forefront of development and innovation. The markets of local towns today are more or less abundant with goods and services, but Moscow attracts all the other resources necessary for development - foreign capital, foreign assistance, new technology, people, know-how, etc.

Foreign perception of the country is often based on what foreigners see in Moscow. This is a much distorted view, because the city is like no other in the country. A common perception about the Muscovites is that they are so self-centered that they not only look down upon other ethnicities and nationalities, but on the rest of the country as well.

The Saratov region that was chosen for the study probably does not represent any particular interest in itself – it is just one of the many. It has its own history and its own specifics, but in terms of economic development there is nothing unique about it. This, in turn, makes it a perfect subject for this study, because it represents a typical Russian provincial region that does not enjoy all the privileges of the center. In this regard it is as good as any other, and the conclusions drawn from the interviews with regions’ businesspeople can be applied to a large number of regions in the country.
Even though Hungary is a smaller country, it has its own regional diversity as well. The closer one goes to the Western borders of the country, the farther one gets removed from Eastern Europe, and not only geographically. One of the Hungarian respondents made a parallel comparison: what Eastern Hungary is to Ukraine, so Western Hungary is to Eastern Hungary. One of my assistants, who was originally from the very Western part of Hungary, once remarked that when he had told his family that he was moving to Nyiredgyhaza (a town close to the border with Ukraine), his parents even asked him if it was still in Hungary.

Despite these perceptions, the region in itself does not represent an odd-ball when compared with the other administrative units in the GDP per capita, the employment structure, and an overall economic health index (see Appendix 5). The general results of the survey, therefore, can to some extent be generalized to some other areas of the country. Moreover, its location in the East makes it a better fit for comparison with the Russian region, because such factors as the proximity to the West and the foreign influence that, for example, have favored greatly the Western Transdanubian region, do not have to be factored into the analysis.

The only consequence that the choice of the region may have for the survey results is the respondents’ attitude towards membership in the European Union. Since the Western part of Hungary has had more exposure to and more relations with the West than the Eastern part, the attitude may be different in that part of the country. Since membership in the European Union does not constitute the center-piece of the study, this feature of the region does not pose a problem for the comparative analysis that follows.
Respondents

The total number of usable responses was 105: 51 from Russia and 54 from Hungary. The majority of the Hungarian responses came from the food products, beverages, and the tobacco industry (17%), the basic and fabricated metals industry (15%), the textile and textile products industry (13%), and the manufacturing of paper products, publishing and printing industry (11%) (Table 1). The distribution of the

Table 1. Distribution of Responses by Industry, Hungary

<table>
<thead>
<tr>
<th>Manufacturing Categories</th>
<th>Hungary Responses</th>
<th>Hungary Non-Responses</th>
<th>Hungary Percent in the Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>9 (17%)</td>
<td>22 (16%)</td>
<td>20%</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>7 (13%)</td>
<td>19 (14%)</td>
<td>13%</td>
</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
<td>2 (4%)</td>
<td>10 (7%)</td>
<td>4%</td>
</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
<td>4 (7%)</td>
<td>9 (7%)</td>
<td>7%</td>
</tr>
<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>6 (11%)</td>
<td>8 (6%)</td>
<td>6%</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
<td>1 (2%)</td>
<td>2 (2%)</td>
<td>2%</td>
</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>3 (6%)</td>
<td>5 (4%)</td>
<td>6%</td>
</tr>
<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
<td>2 (4%)</td>
<td>6 (4%)</td>
<td>3%</td>
</tr>
<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
<td>8 (15%)</td>
<td>24 (18%)</td>
<td>16%</td>
</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
<td>3 (6%)</td>
<td>15 (11%)</td>
<td>9%</td>
</tr>
<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
<td>2 (4%)</td>
<td>8 (6%)</td>
<td>6%</td>
</tr>
<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
<td>1 (2%)</td>
<td>1 (1%)</td>
<td>1%</td>
</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c</td>
<td>4 (7%)</td>
<td>5 (4%)</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>2 (4%)</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>134 (100%)</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 Manufacturing categories of five companies were changed from the original categories assigned to them by the Statistical office. Three were re-coded to match their own description; two were included in the other category, because their production process ranges from the production of dolls to sugar and flour packaging.

2 Calculated on the basis of the population list, from which the sample for the study was drawn; no changes to the original manufacturing categories were made.

companies among different industries in the responses closely reflects the distribution of companies among different industries in the region (compare the percentages in the second and the fourth columns of Table 1) with only the paper, publishing and printing
industry slightly over-represented in the responses (11% of the responses come from that industry, whereas only 6% of the companies in the region do). A very similar dynamic is observed when the respondents are compared to the companies from the sample that did not respond (Table 1). In other words, the Hungarian respondents closely represent the population from which they had been drawn and there is no systematic difference between the companies that responded to the survey and the companies that did not. Therefore, there should not be any industry-specific distortions in the results of the survey.

The situation is different with the Russian sample. Even though the food, beverages, and tobacco industry does make up the largest percentage of the companies on the population list - 28%, the percentage of responses that came from that industry is much higher – 47% (compare the second and the fourth columns of Table 2). Consequently, a number of other industries are somewhat underrepresented in the survey – manufacturing of textiles and textile products, chemicals and chemical products, rubber and plastic products, with electrical and optical equipment group under-represented the most (compare the second and the fourth columns of Table 2). In other words, the respondents do not closely resemble the population that they represent, which may distort the results of the survey and render them less reliable. Moreover, the industrial make-up of the companies that responded to the survey is different from the industrial make-up of the companies that did not respond with the food, beverages, and tobacco industry again being the most overrepresented in the responses (compare columns two and three of Table 2). Considering the diversity of industries represented in the survey and the low number of companies representing most of the industries, it is hard to assume the definite
Table 2. Distribution of Responses by Industry, Russia

<table>
<thead>
<tr>
<th>Manufacturing Categories</th>
<th>Russia Response</th>
<th>Russia Non-Responses</th>
<th>Russia Percent in the Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>24 (47%)</td>
<td>14 (12%)</td>
<td>28%</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>1 (2%)</td>
<td>8 (7%)</td>
<td>7%</td>
</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
<td>1 (2%)</td>
<td>0</td>
<td>1%</td>
</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
<td>0</td>
<td>5 (4%)</td>
<td>2%</td>
</tr>
<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>5 (10%)</td>
<td>3 (3%)</td>
<td>6%</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
<td>0</td>
<td>4 (3%)</td>
<td>4%</td>
</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>1 (2%)</td>
<td>4 (3%)</td>
<td>5%</td>
</tr>
<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
<td>4 (8%)</td>
<td>8 (7%)</td>
<td>10%</td>
</tr>
<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
<td>3 (6%)</td>
<td>13 (11%)</td>
<td>6%</td>
</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
<td>4 (8%)</td>
<td>15 (13%)</td>
<td>11%</td>
</tr>
<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
<td>1 (2%)</td>
<td>16 (13%)</td>
<td>11%</td>
</tr>
<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
<td>1 (2%)</td>
<td>10 (8%)</td>
<td>5%</td>
</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c</td>
<td>4 (8%)</td>
<td>4 (3%)</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>2 (4%)</td>
<td>16 (13%)</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>51 (100%)</td>
<td>120 (100%)</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 After the survey data had been collected and I started to analyze the results I discovered that the list of the manufacturing enterprises obtained from the Statistical Office of the Saratov Region included some non-manufacturing enterprises. These enterprises are classified under the other category in the table. The analysis that follows includes two companies that would not normally be classified under manufacturing – one company develops quarries and the other company develops and implements business solutions. I decided to keep them in the analysis, because their field of business is close enough to manufacturing.

2 Manufacturing categories of three companies were changed from the original categories assigned to them by the Statistical office to match their own descriptions.

3 Calculated on the basis of the population list, from which the sample for the study was drawn, minus the non-manufacturing companies that were included in the list by error. In other words, the list, from which the sample for the study was drawn included 629 companies in total, 72 of which were non-manufacturing, but the percentages in this column were calculated taking 557 (629-72) as a 100% instead of 629.

presence of non-response or response bias for most of the industries. The food, beverages, and tobacco industry represents the main concern, because the companies from that industry were clearly more prone to participating in the survey than not. The question, then, is whether there is something so different about this industry that sets it apart from the other industries and that may influence the results of the analysis to such an extent that wrong conclusions are drawn. I keep this in mind as I proceed with the
analysis and flag results showing anything very different about the responses of the companies from that group.

The distribution of the responses by the size of the town where the company is located is quite similar to the distribution of companies in towns of different size in the Saratov region overall and to the distribution of non-responses in towns of different sizes (Table 3). There is probably just a slight over-representation of companies from towns

<table>
<thead>
<tr>
<th>Town Size Number of people</th>
<th>Russia Responses</th>
<th>Russia Non-Responses</th>
<th>Russia Percent in the Region(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3,000</td>
<td>2 (4%)</td>
<td>4 (3%)</td>
<td>4%</td>
</tr>
<tr>
<td>3,000 – 9,999</td>
<td>4 (8%)</td>
<td>8 (7%)</td>
<td>8%</td>
</tr>
<tr>
<td>10,000 – 19,999</td>
<td>4 (8%)</td>
<td>3 (3%)</td>
<td>5%</td>
</tr>
<tr>
<td>20,000 – 49,999</td>
<td>7 (13%)</td>
<td>10 (8%)</td>
<td>9%</td>
</tr>
<tr>
<td>50,000 – 99,999</td>
<td>3 (6%)</td>
<td>4 (3%)</td>
<td>6%</td>
</tr>
<tr>
<td>100,000 – 249,999</td>
<td>6 (12%)</td>
<td>22 (18%)</td>
<td>19%</td>
</tr>
<tr>
<td>250,000 and more</td>
<td>25 (49%)</td>
<td>69 (58%)</td>
<td>49%</td>
</tr>
<tr>
<td>Total</td>
<td>51 (100%)</td>
<td>120 (100%)</td>
<td>100%</td>
</tr>
</tbody>
</table>

\(^1\) The city population data were downloaded from \url{http://www.perepis2002.ru/ct/html/TOM_01_04_4.htm} (2002 Census; in Russian).

\(^2\) Percent of companies on the population list that come from towns of these sizes.

with populations between 20,000 and 49,999 and a slight under-representation of companies from towns with populations between 100,000 and 249,999 people (compare columns 2 and 4 for the 20,000-49,999 and 100,000 – 249,999 groups respectively in Table 3). The latter happened primarily because of the erroneous data supplied by the Statistical office. There are only two towns with populations between 100,000 and 249,999 people – Engels (population of 193,984 people) and Balakovo (population of 200,470 people), but the majority of information provided for the companies in Engels by the Statistical office was incorrect and, thus, it was impossible to contact most of them.
As a result there are fewer interviews from companies in Engels than there should have been.

Considering the importance of the Center in the Russian economic life, the main concern was overrepresentation of companies from big cities (Engels, Balakovo, and Saratov (population of 873,055 people)). Fortunately, the proportion of responses that came from Saratov is the same as the proportion of companies on the population list (49% in both cases, Table 3); and even though a larger proportion of companies from Saratov did not respond (58% of non-responses came from Saratov as opposed to 49% of the responses, Table 3), the difference is not large enough to present a concern for non-response bias.

In the Hungarian case, companies from some smaller towns are somewhat underrepresented (compare columns 2 and 4 for the 3,000-9,999 and 10,000-19,999 groups in Table 4) and companies from some larger towns are somewhat over-represented.

<table>
<thead>
<tr>
<th>Town Size</th>
<th>Hungary Responses</th>
<th>Hungary Non-Responses</th>
<th>Hungary Percent in the Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3,000</td>
<td>6 (11%)</td>
<td>14 (11%)</td>
<td>8%</td>
</tr>
<tr>
<td>3,000 – 9,999</td>
<td>8 (15%)</td>
<td>28 (21%)</td>
<td>20%</td>
</tr>
<tr>
<td>10,000 – 19,999</td>
<td>5 (9%)</td>
<td>20 (15%)</td>
<td>16%</td>
</tr>
<tr>
<td>20,000 – 49,999</td>
<td>10 (18%)</td>
<td>12 (9%)</td>
<td>14%</td>
</tr>
<tr>
<td>50,000 – 99,999</td>
<td>3 (6%)</td>
<td>10 (7%)</td>
<td>8%</td>
</tr>
<tr>
<td>100,000 – 249,999</td>
<td>22 (41%)</td>
<td>50 (37%)</td>
<td>34%</td>
</tr>
<tr>
<td>250,000 and more</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>134 (100%)</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 The city population data were downloaded from [http://www.nepszamlalas.hu/eng/volumes/06/area.html](http://www.nepszamlalas.hu/eng/volumes/06/area.html) (2001 Census; in English).

2 Percent of companies on the population list that come from towns of these sizes.
(compare columns 2 and 4 for the 20,000-49,999 and 100,000-249,999 groups in Table 4), but not significantly enough to influence the results of the survey analysis. There is also no systematic difference between the distributions of the companies that responded to the survey and the companies that did not respond (Table 4).

It appears that the “boundaries” between bigger and smaller towns in Hungary in terms of their status are not as distinct as they are in Russia, where the Center (even if it is only a regional center) historically has always attracted more resources than the periphery. Quite a large proportion of Hungarian manufacturing enterprises in the region are located in smaller towns, and the only two big cities with a population between 100,000 and 249,999 people – Nyíregyháza (population of 113,281 people) and Debrecen (population of 198,905 people), have only about 15 or 20 percent more companies than the other cities (Table 4). This, in fact, indicates that smaller towns overall are active participants in the economy in general. In Russia, in contrast, forty nine percent of all manufacturing enterprises on the population list came from the ‘capital’ of the region – Saratov, with another 20% located in the next two biggest cities – Engles and Balakovo, and only 30% were located in towns with a population of less than 100,000 people (Table 3).  

The majority of the Hungarian respondents (42%) employ between 5 and 19 employees, whereas the majority of the Russian respondents (41%) employ between 20 and 49 employees (Table 5a). Overall, the Hungarian respondents are in companies

\[\text{11} \quad \text{The distribution is almost the same if the companies are divided into small enterprises (less than 100 employees) and medium and large enterprises (100 or more employees) (see Appendix 6). What emerges is that even though the number of small companies on the population list is only 20% of all small companies in the region, the proportions of companies with less than 100 employees in different towns in the region should be the same as the proportions of companies with less than 100 employees in different towns in the sample, because the latter were selected randomly.}\]
smaller in size than their Russian counterparts – 50% of the Hungarian companies have 20 or more employees as compared to 86% of the Russian companies (Table 5b). In fact, according to the distribution of the Hungarian companies on the population list the 5 to 19 employees group is even underrepresented in the responses (only 42% of the companies fall into this category in the responses, whereas 57% of all the manufacturing companies in the region do) and the companies that employ between 100 and 499 employees are somewhat over-represented (19% of the responses came from that group, whereas only 10% of the companies in the region employ that many people) (Table 5a). Companies that employ between 100 and 499 employees were also more likely to respond to the survey than not – the companies from this group constituted 18% of the responses and only 5% of the non-responses (Table 5a). Since bigger companies often

**Table 5a. Distribution of Responses by Company Size (6 categories)**

<table>
<thead>
<tr>
<th>Size of the company</th>
<th>Hungary Responses</th>
<th>Hungary Non-Responses</th>
<th>Hungary Percent in the population</th>
<th>Russia Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4 employees</td>
<td>4 (7%)</td>
<td>0</td>
<td>0</td>
<td>2 (4%)</td>
</tr>
<tr>
<td>5-19 employees</td>
<td>23 (43%)</td>
<td>77 (57%)</td>
<td>57%</td>
<td>5 (10%)</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>12 (22%)</td>
<td>33 (25%)</td>
<td>23%</td>
<td>21 (41%)</td>
</tr>
<tr>
<td>50-99 employees</td>
<td>3 (6%)</td>
<td>16 (12%)</td>
<td>8%</td>
<td>10 (19%)</td>
</tr>
<tr>
<td>100-499 employees</td>
<td>10 (18%)</td>
<td>7 (5%)</td>
<td>10%</td>
<td>9 (18%)</td>
</tr>
<tr>
<td>500 and more employees</td>
<td>2 (4%)</td>
<td>1 (1%)</td>
<td>2%</td>
<td>4 (8%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>134 (100%)</td>
<td>100%</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

**Table 5b. Distribution of Responses by Company Size (3 categories)**

<table>
<thead>
<tr>
<th>Size of the company</th>
<th>Hungary Responses</th>
<th>Hungary Non-Responses</th>
<th>Hungary Percent in the population</th>
<th>Russia Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20 employees</td>
<td>27 (50%)</td>
<td>77 (57%)</td>
<td>57%</td>
<td>7 (14%)</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>12 (22%)</td>
<td>33 (25%)</td>
<td>23%</td>
<td>21 (41%)</td>
</tr>
<tr>
<td>More than 50 employees</td>
<td>15 (28%)</td>
<td>24 (18%)</td>
<td>20%</td>
<td>23 (45%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>134 (100%)</td>
<td>100%</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

1 The population list from which the sample of Hungarian companies was drawn was not supposed to include companies that have fewer than 5 employees, but four of the respondents were in that group.
have different resources at their disposal than smaller companies, their behavior often differs from that of smaller companies. Hence it is necessary to be alert in the further analysis of any indication that the bigger companies are skewing the results.

Unfortunately, detailed employment data for the population list of the Russian manufacturing enterprises could not be obtained.\textsuperscript{12} According to the division of the companies into less than 100 employees and 100 and more employees that was provided by the Statistical office, the groups make up 76\% and 24\% of the companies in the region respectively.\textsuperscript{13} According to Table 5a, 74\% of the responses came from companies with less than 100 employees and, respectively, 26\% of the responses came from companies with 100 or more employees, which reflects the population data.

<table>
<thead>
<tr>
<th>Size of the company</th>
<th>Russia Responses</th>
<th>Russia Non-Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (less than 100 employees)</td>
<td>16 (31%)</td>
<td>62 (52%)</td>
</tr>
<tr>
<td>Medium and Large (100 or more employees)</td>
<td>35 (69%)</td>
<td>58 (48%)</td>
</tr>
<tr>
<td>Total</td>
<td>51 (100%)</td>
<td>120 (100%)</td>
</tr>
</tbody>
</table>

It appears that a larger proportion of the Russian companies that have less than 100 employees did not respond (52\% of the companies that did not respond have less than 100 employees vs. 31\% of the companies that responded, Table 6) and, subsequently, a larger proportion of the companies with 100 or more employees

\textsuperscript{12} First, the Statistical office in Saratov indicated that the data would be available in the Fall of 2004, but when the request was sent to them in October of 2004 they said that the requested information was considered classified.

\textsuperscript{13} According to the Statistical Office, the list of companies with less than 100 employees (243 companies) that they provided for the analysis was a 20\% random sample of all the companies with less than 100 employees in the region. According to this there are 1215 (243*5) companies with less than 100 employees altogether in the region, which would make it 76\% of all companies in the region (1215 / (1215 + 386 (companies with 100 or more employees in the region))).
responded (69% of the responses vs. 48% of non-responses, Table 6). Even though the division of companies in these two size groups is very crude and does not provide enough detail to make any more specific assumptions about companies of what size were less likely to participate, the difference is significant enough to warrant attention when analyzing the results of the survey.

Table 7. Distribution of Responses by Ownership

<table>
<thead>
<tr>
<th>Ownership type</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>52 (96%)</td>
<td>50 (98%)</td>
</tr>
<tr>
<td>Private, not privatized</td>
<td>44 (81%)</td>
<td>18 (35%)</td>
</tr>
<tr>
<td>Private, privatized</td>
<td>6 (11%)</td>
<td>32 (63%)</td>
</tr>
<tr>
<td>Private, not known if privatized or not</td>
<td>2 (4%)</td>
<td>0</td>
</tr>
<tr>
<td>State owned</td>
<td>1* (2%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>Mixed state and private ownership</td>
<td>1** (2%)</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

* In the process of being privatized.
** The state has only some intangible assets in the company, but the respondent did not specify what kind of assets.

Ninety six percent (52) of the Hungarian respondents and 98% (50) of the Russian respondents were in private ownership (Table 7). Whereas 63% (32) of the Russian companies were at some point privatized, only 11% (6) of the Hungarian companies were (Table 7). The Russian companies that are in private ownership and have not been privatized were all established after 1990. It reflects the fact that private ownership was not allowed in Russia/the Soviet Union before the economic reforms of the late 1980s – 1990s. The situation was different in Hungary (as also became apparent from interviews with the Hungarian respondents) – a large number of enterprises in the country in the 1990s were transformed into private ownership through partial or complete buy-outs of cooperative enterprises, which, by the middle of the 1980s accounted for 20% of
economic activity in the country. Cooperative ownership is different from state ownership, and, thus, the fact of buying out a company from cooperative ownership does not constitute privatization. At the same time it is a different process from establishing a company anew as well and may be as important of a factor as privatization in determining organizational behavior. Unfortunately the survey instrument did not incorporate that factor and, thus, it cannot be established which Hungarian companies that answered “not privatized” have been bought out from a cooperative and which have not. As a result, we can not differentiate between the Hungarian companies that were established anew and those that changed from one form of ownership to another. As a consequence of this shortcoming, it is impossible to know how many of the 41 (76%) Hungarian companies that were established after 1990 and are now in private ownership had actually existed before as a cooperative under a different name or in a different form (Table 8).

Table 8. Distribution of Responses by Whether the Company was Established Before or After 1990

<table>
<thead>
<tr>
<th>Year Established</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established on or before 1990</td>
<td>13 (24%)</td>
<td>31 (61%)</td>
</tr>
<tr>
<td>Established after 1990</td>
<td>41 (76%)</td>
<td>20 (39%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

In the Russian case, though, it is clear, as we know that all of the 31 (61%) enterprises that had been established before 1990 and are now in private ownership used to belong to the State and were at some point privatized (Table 8). A cooperative sector was present in the Soviet Union at the time of the transition as well, but it was formally

---

legalized only in 1988, was very small, and, thus, did not play the same role in the country’s economic transformation as it did in Hungary.

Since there are hardly any state run enterprises in the responses, it is not useful to talk about the respondents in terms of whether they have been privatized or not - there is no group with which to compare them (normally one analyzes whether privatization changes how companies operate and compares them with the companies that are still in state ownership). What will be useful, though, is to distinguish between the companies in terms of whether they have ever been in state ownership, i.e., companies that are in private ownership right now, but at some point used to belong to the state, or not (the private companies that were established from scratch). Due to the shortcoming of the survey instrument, this dichotomy by and large can only be useful in explaining the answers of the Russian respondents; in the case of Hungary a significant component is missing, which can lead to misinterpretation of the results. What can be done, though, is an assessment whether those 8 Hungarian companies that fall into the “have been in state ownership” category show any stark differences from the companies that have not.

The predominant number of the companies that responded to the survey in both countries was in domestic ownership (91% of the Hungarian companies and 94% of the

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% domestic ownership</td>
<td>49 (91%)</td>
<td>48 (94%)</td>
</tr>
<tr>
<td>100% foreign ownership</td>
<td>4 (7%)</td>
<td>0</td>
</tr>
<tr>
<td>Mixed domestic &amp; foreign ownership</td>
<td>1 (2%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>Confidential Info</td>
<td>0</td>
<td>2 (4%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>
Russian companies) (Table 9). Since there is not much variation here\textsuperscript{15} discerning the influence of foreign ownership on organizational behavior will not be a concern in the analysis.

Eighty four percent and eighty five percent of the Russian and Hungarian respondents respectively were male and 16\% and 15\% respectively were female (Table 10).

<table>
<thead>
<tr>
<th>Gender of the Respondent</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>46 (85%)</td>
<td>43 (84%)</td>
</tr>
<tr>
<td>Female</td>
<td>8 (15%)</td>
<td>8 (16%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

Fifty percent of the Hungarian respondents indicated that they had had some kind of management training and 50\% indicated that they had not had any (Table 11).\textsuperscript{16} This is compared to only 20\% of the Russian respondents that had had some kind of management training and 80\% that had not had any (Table 11). The distribution of the answers by gender follows a similar pattern. Fifty percent of the Hungarian female respondents and 50\% of the Hungarian male respondents have had some kind of management training, and the other 50\% have not (Table 11). This is compared to 12\% and 21\% of the Russian female and male respondents respectively that have had some

\textsuperscript{15} The owners of the four Hungarian companies that are in 100\% foreign ownership come from two diverse regions – Western European and Eastern Europe. This means they cannot be included in the same category and treated as the same, and, thus, any comparison of them against the other, domestically owned companies, would be uninformative.

\textsuperscript{16} Some of the Hungarian respondents indicated that they participated in some “communist” management courses; these responses were coded as “no management training,” because the concern in this research is whether the exposure to western style management in particular predisposes a businessperson to act differently.
kind of management training and 88% and 79% of the Russian female and male respondents respectively that have not had any management training (Table 11).

<table>
<thead>
<tr>
<th>Management Training</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some Management Training</td>
<td>27 (50%)</td>
<td>10 (20%)</td>
</tr>
<tr>
<td>No Management Training</td>
<td>27 (50%)</td>
<td>41 (80%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some Management Training</td>
<td>4 (50%)</td>
<td>1 (12%)</td>
</tr>
<tr>
<td>No management Training</td>
<td>4 (50%)</td>
<td>7 (88%)</td>
</tr>
<tr>
<td>Total Female</td>
<td>8 (100%)</td>
<td>8 (100%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Male</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Some Management Training</td>
<td>23 (50%)</td>
<td>9 (21%)</td>
</tr>
<tr>
<td>No Management Training</td>
<td>23 (50%)</td>
<td>34 (79%)</td>
</tr>
<tr>
<td>Total Male</td>
<td>46 (100%)</td>
<td>43 (100%)</td>
</tr>
</tbody>
</table>

The majority of the Russian respondents were younger than the majority of the Hungarian respondents - 65% (or 33 respondents) were between the ages of 35 and 45 with the oldest respondent less than 55 years old (Table 12). In contrast, the majority of the Hungarian respondents (23 respondents or 42%) were between the ages of 45 and 55 with 9 respondents (17%) more than 55 years old (Table 12).

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 years old</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>25-35 years old</td>
<td>6 (11%)</td>
<td>5 (10%)</td>
</tr>
<tr>
<td>35-45 years old</td>
<td>16 (30%)</td>
<td>33 (65%)</td>
</tr>
<tr>
<td>45-55 years old</td>
<td>23 (42%)</td>
<td>13 (25%)</td>
</tr>
<tr>
<td>55 and above</td>
<td>9 (17%)</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>
Finally, the predominant number of the respondents overall (88 respondents or 84%) were directors/top managers. The rest were either directors’/top managers’ top assistants or directors/top managers of certain divisions, e.g., sales, marketing, human resources. The transcripts of the interviews show that the predominant number of the Hungarian respondents were owners or co-owners of the companies that they were interviewed about and the predominant number of the Russian respondents were not. Unfortunately, the survey instrument did not incorporate that distinction into a question and, therefore, we cannot safely assume which respondents owned the business and which were simply hired to do the job.

17 The terms ‘director’ and ‘top manager’ will be used interchangeably throughout the analysis. ‘Director’ is the Russian equivalent of the ‘top manager.’ In the Russian business world the word ‘manager’ is normally used for lower level positions. For example, ‘a sales representative’ is normally called a ‘sales manager’ or a ‘secretary’ is often referred to as an ‘office manager.’
CHAPTER 6

BUSINESS PRACTICES

This chapter presents an analysis of the survey respondents’ business practices with the focus on any systematic differences between the two countries that allows concluding that the respondents from one country are more market oriented than the respondents from the other country. As mentioned in Chapter 5, the term ‘market orientation’ is utilized very broadly to refer to any set of behaviors that are based on market-based principles and are different from behaviors resembling the old traditions of the command economy. I also have hypothesized that the Hungarian businesspeople will display a more market oriented behavior than the Russian businesspeople.

Mission Statements

The business practices part of the questionnaire began with inquiry about organizations’ mission statements. Seventy five percent (38) of the Russian respondents did not have a mission statement and ninety four percent (51) of the Hungarian respondents did (Table 1). When asked to specify, though, most of the Hungarian respondents simply understood “mission” as their “strategic goals.” This could be seen either from the kind of the answers that they gave: “Short term: developing the commercial section. Long term: to develop the plant, to buy up-to-date machinery and technology...” or from them explicitly stating so: “Our actual goals are to maintain the present volume of production, to stabilize our position in the market, and to develop a certain technology needed for the requirements of this era....” or from the fact that they used the same answer when asked about strategic goals of their organization. These
examples and similar responses were discarded as mission statements and were added to the answers regarding current goals of the organizations, because the respondents themselves did not perceive them as mission statements, even though at times they were no different from the mission statements given by other respondents. This left us with 35 Hungarian companies (65%) for the analysis of their mission statements.

Table 1. Distribution of Companies by Whether They Have a Mission Statement or Not.

<table>
<thead>
<tr>
<th>Does your organization have a mission statement?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes: Used for the analysis</td>
<td>51 (94%)</td>
<td>13 (25%)</td>
</tr>
<tr>
<td></td>
<td>35 (65%)</td>
<td>13 (25%)</td>
</tr>
<tr>
<td>No</td>
<td>3 (6%)</td>
<td>38 (75%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

As can be seen from Table 1 even with some of the Hungarian mission statements discarded, the proportion of the Hungarian companies that have a mission statement is still much larger than the proportion of the Russian companies (65% and 25% respectively), which may be an indicator that Hungarian companies are more market oriented than Russian companies. However, two objections can be brought against such a conclusion. First, previous research has shown that even some of the Fortune 500 companies and top service and manufacturing companies do not have a mission statement: of the 218 Fortune 500 companies that responded to a survey by Pearce and David,2 40% did not have a mission statement,3 and of the 181 responses received by

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1 One company did not want to disclose its mission statement as confidential information and, thus, was also excluded from the analysis.


3 Ibid., 110.
Fred R. David from *Business Week* 1000 top service and manufacturing firms 59% did not have a mission statement. Nevertheless, these companies are not considered less market oriented than the ones that have a mission statement. Secondly, what may be more important than the proportion of companies that have a mission statement is their content. “The mission statement needs to be longer than a phrase or sentence, but not a two-page document. And it should not be overly specific. That is, it should not include dollar amounts, percentages, numbers, goals, or strategies. Nor should it include specific objectives, strategies, and policies, which are better left to the strategic plan.” Most of the Hungarian respondents simply listed the elements of their mission statements as they would list their objectives or goals, often in a very incoherent manner; for example: “Fast reliable servicing, quality products, advanced technology, reasonable prices, utmost care, flexibility, the customer is always right.” The majority of the 13 Russian mission statements are simple one-liners like “Production of high quality products” or “Creating a civilized market for information technologies.” In other words, the majority of the companies in both countries do not have a well-written mission statement.

Literature suggests nine components that should be included in the mission statement: target customers (who are the company’s customers?), principal products and/or services (what are the company’s major products and/or services?), geographic market (where does the organization seek customers? In what geographic area does it compete?), technology (what are the company’s core technologies?), concern for

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5 Ibid., 92.
survival/growth/profit (what are the company’s economic objectives?), company philosophy (what are the company’s beliefs and values?), desired public image (what are the company’s public responsibilities?), employees (what is the company’s attitude towards its employees?), and company self-concept (what makes the company different from the rest? What are its competitive strengths?).

Table 2. Distribution of Responses by Mission Statements’ Components (percent of the companies that have a mission statement: 35 in Hungary and 13 in Russia; the totals add up to more than 100%, because some companies have more than one component in their mission statement)

<table>
<thead>
<tr>
<th>Mission Statement Components</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target customers (who are the company’s customers?)</td>
<td>2 (6%)</td>
<td>3 (23%)</td>
</tr>
<tr>
<td>Principle products and/or services (what are the company’s major products and/or services?)</td>
<td>7 (20%)</td>
<td>7 (54%)</td>
</tr>
<tr>
<td>Geographic market (where does the organization seek customers? In what geographic area does it compete?)</td>
<td>6 (17%)</td>
<td>2 (15%)</td>
</tr>
<tr>
<td>Technology (what are the company’s core technologies?)</td>
<td>2 (6%)</td>
<td>0</td>
</tr>
<tr>
<td>Concern for survival/growth/profit (what are the company’s economic objectives?)</td>
<td>23 (66%)</td>
<td>0</td>
</tr>
<tr>
<td>Company philosophy (what are the company’s beliefs and values?)</td>
<td>13 (37%)</td>
<td>10 (77%)</td>
</tr>
<tr>
<td>Desired public image (what are the company’s public responsibilities)</td>
<td>2 (6%)</td>
<td>1 (8%)</td>
</tr>
<tr>
<td>Employees (what is the company’s attitude towards its employees?)</td>
<td>2 (6%)</td>
<td>1 (8%)</td>
</tr>
<tr>
<td>Company self-concept (what makes the company different from the rest? What are its competitive strengths?)</td>
<td>2 (6%)</td>
<td>0</td>
</tr>
</tbody>
</table>

As can be seen from Table 2 none of the Russian companies included the technology, the concern for survival/growth/profit, and the company self-concept components in its mission statement. The two Hungarian companies that included the technology component in their mission statements did not specify what kind of technology they wanted to use; they simply mentioned that they wanted to base their

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work on “advanced technology” in one case and most modern, high-technology in the other. The most often mentioned component by the Hungarian companies was the concern for survival/growth/profit (23 companies or 66%): “To get a bigger market share;” “To remain on the market;” Expand our business;” “Taking over a new machine-park.” Two mission statements that were also included in this group simply expressed concern for supporting the family and, thus, survival: “Just to live, feed the family;” “Supporting the family is the main aim; none of the family members works anywhere else, so we are absolutely independent from state enterprises; we make our own living.”

The component that was the second most often mentioned by the Hungarian companies (13 companies or 37%) and the most often mentioned by the Russian companies (10 companies or 77%) was the company philosophy (Table 2). In both cases it mainly included such concerns as producing quality products, constantly improving quality, or satisfying demands of the market and the customers: “Quality work for affordable prices” (a Hungarian respondent); “To do a good and honest job” (a Hungarian respondent); “In the service of all-time interests of clients with the maximum regard for food safety” (a Hungarian respondent); “Production of [goods] precisely and on-time” (a Russian respondent); “1. The customer is always right; 2. If the customer is not right, go to 1; 3. If we still conclude that the customer is not right, it means it's not our customer” (a Russian respondent).

The second most mentioned component by the Russian companies was the product and/or services: “Production of high quality [product] for different kinds of ground transportation and … for the needs of modern construction fully meeting demands

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of the market;” “Supplying high quality [product] to our town.” This component and the geographic market component received almost equal attention in the Hungarian companies (7 and 6 companies respectively): “To support domestic communications industrial market with …; to be the main supplier of … in Hungary;” “To fulfill the public duties that we have taken upon us – to inform the people of [our town].”

None of the mission statements in the study included all 8 components, but, again, previous research shows that it is not uncommon even in advanced market economies. The mission statement of only one Hungarian company included as many as five different components:

From the program of the company: To establish a company, which is the leader and accepted in its goal-markets, where the use of high-technology is necessary in the field of …; an organization, which develops continuously, optimally, and structurally. As a result of trustworthy, effective, cost-efficient work completed on time, makes a name for itself. It always works with the most modern technology. It ensures abundant supply of its products to its partners [customers]. (Components: the principle product, the technology, the concern for survival/growth/profit, the company philosophy, the company self-concept.)

The mission statements of one of the Russian and one of the Hungarian companies included four components:

No particular mission, except for providing people with well-paid employment so that they can support their families and children - that's the main mission. Paying salaries on time. Creating respectful living. In the future when the company develops more, we want to start providing financial help to children and old people. We also want to start designing school furniture. (A Russian company.) (Components: the desired public image, employees, the product, and the company philosophy)

To support domestic communications industrial market with …; to be the main supplier of … in Hungary. (A Hungarian company.) (Components: the target customer, the product, the geographic market, and survival/growth/profit.)

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Three Russian companies (23%) and six Hungarian companies (17%) covered three different components in their mission statements; two Russian companies (15%) and four Hungarian companies (11%) covered two different components in their mission statements; and, finally, seven Russian companies (54%) and 23 of the Hungarian companies (66%) focused on only 1 component in their mission statements.

Of the Hungarian respondents, whose companies did not have a mission statement, one explained that his company completely depends on government’s funding of local schools, who are his primary customers: “We had once [a mission statement], but I can’t say it for sure now, since our last year’s production was two-thirds of two years before. We completely depend on the local government and how much money they give to schools. I can make plans for nothing, if there are no customers.” In other words, the respondent understood his mission as his action/production plan for the future. Another Hungarian respondent said that they just want to meet the market’s demand for their product, but did not consider it as their mission. Similarly, a Russian respondent commented that their organization strives to develop “people by publishing books,” but did not consider it as their mission either. One last comment was from another Russian respondent who said that he has never thought about it: “I just want to know what tomorrow will bring…and I can't always do that.”

To summarize, from the above analysis we can see that only one Hungarian company had a more or less coherent mission statement (the company that had five components in its mission statement) and not a single Russian company had a well-written mission statement that the company had prepared as part of their business strategy. None of the companies’ mission statements included all of the components
identified in the literature. The mission statements from both countries included about an equal number of components. A larger number of Hungarian companies had a mission statement, and, all together, the mission statements of the Hungarian companies covered more of the components than the mission statements of the Russian companies.

One would assume that whether a company has a mission statement or not would highly depend on whether its top manager has ever had some kind of western style management training and, thus, has been exposed to the idea of a mission statement, or not. Interestingly enough, in our case, there appears to be no correlation between the two: of the 35 Hungarian respondents whose company had a mission statement 35% (19) had some management training and 30% (16) did not (Table 3). For the Russian respondents, the proportions are 10% and 15% respectively (Table 3).

Table 3. Distribution of Companies by Whether They Have a Mission Statement or Not and by Whether Their Manager Has Ever Had Any Management Training or Not (percent of the total number of responses)

<table>
<thead>
<tr>
<th>Does your organization have a mission statement?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Some Management Training</td>
<td>No Management Training</td>
</tr>
<tr>
<td>Yes</td>
<td>19 (35%)</td>
<td>16 (30%)</td>
</tr>
<tr>
<td>No</td>
<td>8 (15%)</td>
<td>11 (20%)</td>
</tr>
<tr>
<td>Total</td>
<td>27 (50%)</td>
<td>27 (50%)</td>
</tr>
</tbody>
</table>

One feature stands out in the description of the Russian respondents that have a mission statement as compared to the Russian respondents that do not have a mission statement – the majority of them (10) have more than 50 employees (Table 7.1, Appendix 7). In addition, the majority of the companies in the food, beverages, and tobacco industry – the industry that is over-represented in the Russian responses, do not have a
mission statement (20 of 24 companies) (Table 7.1, Appendix 7). No major differences are present between the Hungarian companies that have a mission statement and the ones that do not (Table 7.1, Appendix 7).

**Strategic Goals**

The Russian respondents split almost evenly on the answer of whether their organization sets strategic goals or not – 47% of the organizations do and 53% do not (Table 4). Of the Hungarian respondents 81% set strategic goals and only 19% do not (Table 4).

<table>
<thead>
<tr>
<th>Does your organization set strategic goals?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>44 (81%)</td>
<td>24 (47%)</td>
</tr>
<tr>
<td>No</td>
<td>10 (19%)</td>
<td>27 (53%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

Of those companies that have strategic goals almost an equal percentage in both countries (75% in Hungary and 79% in Russia) at least partly focus on issues of growth, expansion, and development (Table 5). The two most mentioned goals by the Hungarian companies in regards to growth, expansion, and development were increasing their market share or gaining new markets (34%) and physical expansion of the company (25%) (Table 6). These were followed by the goals of development (18%) and increase in the volume of production (14%) (Table 6). The two most mentioned goals by the Russian companies in regards to growth, expansion, and development were increasing their market share or gaining new markets (25%) and developing/offering new types or more
Table 5. Distribution of Responses by Strategic Goals (percent of the companies that set strategic goals: 44 in Hungary and 24 in Russia; the totals add up to more than 100%, because some companies pursue different types of goals simultaneously)

<table>
<thead>
<tr>
<th>Strategic Goals</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confidential Information/the Respondent did not specify the goals</td>
<td>2 (5%)</td>
<td>4 (17%)</td>
</tr>
<tr>
<td>Growth/Expansion/Development</td>
<td>33 (75%)</td>
<td>19 (79%)</td>
</tr>
<tr>
<td>Preserving status quo</td>
<td>9 (20%)</td>
<td>0</td>
</tr>
<tr>
<td>Technology oriented goals</td>
<td>15 (34%)</td>
<td>4 (17%)</td>
</tr>
<tr>
<td>Improving the quality of the product/increasing its competitive strength</td>
<td>5 (11%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Restructuring internal processes</td>
<td>4 (9%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Quality of work/services</td>
<td>9 (20%)</td>
<td>0</td>
</tr>
<tr>
<td>Employee oriented goals</td>
<td>4 (9%)</td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

Table 6. Distribution of Responses by Types of Goals of Growth, Expansion, and Development (percent of the companies that set strategic goals: 44 in Hungary and 24 in Russia; the totals add up to more than 100%, because some companies pursue different types of goals simultaneously)

<table>
<thead>
<tr>
<th>Growth/Expansion/Development</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding company/workforce; growth; building new buildings; adding departments.</td>
<td>11 (25%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>Development; improving competitiveness (of the company overall); strategic development; investment programs</td>
<td>8 (18%)</td>
<td>4 (17%)</td>
</tr>
<tr>
<td>Widening network of sales outlets / increasing volume of sales / achieving certain volume of sales</td>
<td>2 (5%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>Increasing market share / gaining new markets / gaining new niches on the local market; becoming monopolist in general or for certain types of products / becoming the first on the market.</td>
<td>15 (34%)</td>
<td>6 (25%)</td>
</tr>
<tr>
<td>Attracting more customers/more business partners</td>
<td>1 (2%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Developing/offering new types/more types/different types of products/services</td>
<td>4 (9%)</td>
<td>6 (25%)</td>
</tr>
<tr>
<td>Increasing the volume of production / achieving certain volume of production / producing more</td>
<td>6 (14%)</td>
<td>4 (17%)</td>
</tr>
<tr>
<td>Generating more profit/more income/more money</td>
<td>4 (9%)</td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

types of products and services (25%). These were followed by the goals of development (17%) and increasing the volume of production (17%) (Table 6). About an equal
proportion of the respondents in both countries (14% in Hungary and 17% in Russia) set their goals in terms of production figures – a measure that is used in planned economies but is alien to practitioners in market economies (Table 6).

The next most mentioned component in both countries’ strategic goals was technology – 34% of Hungarian companies and 17% of Russian companies aim at modernizing their factories and/or bringing new technology and/or equipment (Table 5). Besides the goals of growth and technology, a number of Russian companies mentioned such goals as increasing the competitive strength of their product, changing something in their internal organizational structure or processes, or doing something to benefit their employees (Table 5): “we plan to analyze our product and the market more in order to increase the competitive strength of our products and attract more customers;” “The main goal is to establish such a system of document circulation that would let the owners control and run the company; at times, the situation gets very unhealthy in that regard;” “To bring the minimum wage to the level of the minimum standard of living for the working population in our town.” Hungarian companies stressed these issues as well, but in a larger proportion: 11% strive to improve the quality of their product, 9% are trying to change something about the internal structure of their organization, and another 9% set goals to benefit their employees (Table 5): “To raise income, to improve the planning system, better quality, lower rate of complaints;” “Our goal is to organize our services in such a way that they meet our customers' satisfaction and take their needs into consideration;” “Giving work to … [a certain strata of the society], making their living

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9 This also included such goals as developing an ISO standard and becoming Union compatible.
conditions better, enabling them to live in the 21st century conditions. We would like to do this in great numbers and let those people be an integrated part of the society again.”

There are two components that are present in the strategic goals of some of the Hungarian companies but are not mentioned by any of the Russian companies. The first one is the concern for the quality of the company’s work and/or services: 20% (9) of the Hungarian respondents said that they aim at being good business partners, doing trustworthy and efficient work, keeping to the deadlines, lowering the rates of complaints, producing quality products, and satisfying their customers’ satisfaction\(^\text{10}\) (Table 5). The second one is what I labeled a ‘preserving status quo’ category - 20% of the Hungarian respondents among other things simply try to keep what they have already achieved – keep their market share, stay competitive, keep the company running, keep their employees, keep existing business partners, stay alive, and the like. None of the Russian respondents expressed these concerns.

Of the Russian companies that do not set strategic goals one company explained it by the fact that what they produce is consumed by the government and state-operated organizations and, thus, their production plans, and, therefore, their goals, depend on the government’s plans: “Everything depends on the regional plan; everything that we produce is consumed by the [government] and other state-related organizations, so it does not depend on us. How can I make plans if I don’t know the plans of the Prime-minister?”\(^\text{11}\) One of the Hungarian respondents simply said that there is no reason for them to set strategic goals. One other Hungarian respondent explained that at this point

\(^{10}\) “Improving the quality of the product” and “producing quality product” were considered as different goals, because the latter does not necessarily mean that the company tries to improve the quality, rather just keep the quality good.
their company is not capable of conceiving long-range strategic goals, because they do not even have capital of their own and they completely depend on other companies. Some other Hungarian and Russian companies mentioned development, entering new markets, improving their products’ quality, attracting more customers, and expansion as their goals in general, but not as their strategic goals.

There are no systematic differences in the characteristics of the companies that set strategic goals and those that do not (Table 7.2, Appendix 7). Even the Russian companies from the food, beverages, and tobacco industry split evenly on this question. One minor feature that is probably worth paying attention to is the distribution of the responses by the size of the company: the majority of the Russian companies that set strategic goals (16) have more than 50 employees; the majority of the Russian companies that have more than 50 employees set strategic goals; and the majority of the Hungarian companies that do not set strategic goals (9) have fewer than 20 employees.

Plans

The proportion of the Hungarian companies that make a plan or strategy to achieve their goals is still higher than the proportion of the Russian companies that do (61% and 43% respectively, Table 7), but the difference is not as large as it was in the answers to the two previously discussed questions. The main difference appears to be rather in the way the respondents talked about the process of plan formulation: the predominant number of the Hungarian respondents in their answers focused on what methods or procedures they use to develop their plan or strategy, whereas the majority of

11 All references to the product have been removed.
the Russian respondents focused on who makes the final decision (Table 8): “Analysis in every department, examining environmental effects, formulation of objectives and possibilities, setting targets at the managers’ level” (a Hungarian respondent); “Ideas (for goals) come from top management of our company and as long as the cost of their implementation stays under certain financial limits, we can implement those goals. If the goals require more money, we have to get approval from our ‘mother’ company” (a Russian respondent).

Table 7. Distribution of Companies by Whether They Develop a Plan or a Strategy

<table>
<thead>
<tr>
<th>Does your organization make a plan or a strategy to achieve its goals?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>33 (61%)</td>
<td>22 (43%)</td>
</tr>
<tr>
<td>No</td>
<td>21 (39%)</td>
<td>29 (57%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

Table 8. Distribution of Companies by the Methods that They Use to Set Their Goals and Develop Their Plan (percent of companies that develop a plan – 33 in Hungary and 22 in Russia)

<table>
<thead>
<tr>
<th>What is the process by which your organization determines its goals and its plan or strategy?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answers that focused on methods/procedures only</td>
<td>13 (39%)</td>
<td>3 (14%)</td>
</tr>
<tr>
<td>Answers that focused on actors only</td>
<td>1 (3%)</td>
<td>12 (55%)</td>
</tr>
<tr>
<td>Answers that focused on methods and actors together</td>
<td>3 (9%)</td>
<td>6 (27%)</td>
</tr>
<tr>
<td>Answers that only indicated that the company had a plan</td>
<td>8 (24%)</td>
<td>0</td>
</tr>
<tr>
<td>Answers that included references to the plan and the methods</td>
<td>3 (9%)</td>
<td>0</td>
</tr>
<tr>
<td>No Usable Answer*</td>
<td>5 (15%)</td>
<td>1 (5%)</td>
</tr>
<tr>
<td>Total</td>
<td>33 (100%)</td>
<td>22 (100%)</td>
</tr>
</tbody>
</table>

* The respondents did not give a usable answer to the question of how they develop their plan or a strategy: one respondent simply said that survival is their main guidance, another mentioned that it only happens through an oral agreement and there are no written documents, yet another one simply stated that they determine the goals and assign responsibilities; finally, the last two companies listed some of their goals instead of explaining the process by which they develop a plan or a strategy to achieve those goals.
One factor that may have contributed to this difference in the answers is the fact that the majority of the Hungarian respondents were the owners of the companies that make all the important decisions themselves and, thus, are comfortable with explaining why they make certain decision. The majority of the Russian respondents were holding top positions in the companies, but were not the owners themselves. Eleven of the twelve Russian respondents whose answers focused on actors only, indicated that the owners/stockholders of their company set goals, and the director or the top management or the marketing department develops a strategy or a plan to achieve those goals:

“Stockholders set goals and the management develops a strategy to achieve those goals;”

“Stockholders, sometimes along with top management, set goals, and the top management with the lower management develop a strategy to achieve those goals;”

“The marketing department develops plan/strategy on the basis of the orders from top management; the plan/strategy is then presented to the owners for consideration.” (By “stockholders” all these respondents meant a small number of people (2-3) who owned all of the stock of the company – in essence sole owners of the company.) This is probably the first major characteristic of the Russian companies that carries strong resemblance with the traditions of the communist era – orders come from above and the management is there to simply implement them.

In contrast, even the one Hungarian respondent that focused on actors only in his answer painted a more ‘democratic’ style of decision-making process:”The manager [the respondent], the chief accountant and the subordinates have a meeting, decide on a project and the finances needed for it, and then try to implement it.” Of the three respondents that have had some kind of reference to what determines their plan along
with who decides on it, one gave a similar answer: “We talk about goals and plans at the meetings of the company’s management, but we don’t put anything on paper, at least not officially. We go day by day [see how much we can make today and tomorrow],” and the other two appeared to be the owners who base their decisions on their personal judgement: ”After the emergence of the demands I decide upon the execution, considering the practicality of it [The interviewer: there are these external demands (e.g. to make a new mixture of concrete for a specific task), which usually means for the company to invest in something new or develop new products and services; and the manager decides upon each new occasion if it’s worth the money and the work, or not],” “I don’t usually write it down. I need an intuition, a thought; if I find it a good one, I discuss it with my wife, and then we decide upon its fate. There are no separate departments to do this job for me.”

Of the 13 Hungarian respondents that talked about what methods they use to create a plan or strategy, 10 (30%) analyze, one way or another, their market conditions before deciding on their plan: “We always consider the needs of our partners/customers, the market conditions, the change and the constellation of the market;” “We do market research and produce only what the market needs;” “Our aim is to get as many customers as possible. Our strategy is to find the market and go after it with production. At first we try to find the breaches in the market and find those members of the market who are going to be our partners. The most important part of our work is the improvement of research, to keep our quality No.1; the other is the exploration of the market. It happens chiefly through marketing tools and participation in exhibitions in a lot of countries: USA, Germany, France, Russia, Poland, Czech Republic.”
Three of the four Russian companies that use market research to develop a plan or a strategy rely on their Marketing Departments to do that: “The Marketing department does research and suggests ideas for possible goals, outlines market needs and threats that the company may face in the near future;” “The marketing department examines the market for our types of product, and, if they see a niche that they think is not occupied, they research it and tell us what the market is missing; the company then develops the missing product.” This trend – the seemingly active role that the Marketing Department plays in the Russian companies’ business practices and the absence of thereof in the Hungarian ones – will surface again later on in the analysis to an even greater extent. One explanation for such an ‘organized’ business environment in the Russian companies can be the fact that after big state enterprises had been privatized their departmental structure was not completely abolished, but was modified to fit the new system, i.e., a Marketing Department was established in place of some old department. Two of the above enterprises used to be in state ownership, have been privatized, and employ between 100 and 499 employees; and the other one is still in state ownership and has more than 500 employees. Five of the Hungarian enterprises that use market research in their plan preparation process have less than 20 employees, three have between 20 and 50 employees, and only two have more than 50 employees. In other words, since the Hungarian companies are smaller, they may not have the luxury of establishing a special department to perform a particular business task.

It seems that quite a substantial number of Hungarian companies - 11\(^{12}\) (33%), develop an official document for their plan: “This can be carried through only by such a

\(^{12}\) 8 companies that only indicated that they had a plan plus 3 companies that mentioned that they had a plan and also talked about how they develop their plan (Table 8).
company plan, in which the company tries to balance its sales plan and finances in the
given year. So, it tries to balance the income obtained from commerce and the necessary
expenditures;” “We always have a business plan. We discuss our business plans in our
meetings together with our aims. Those plans that are the most important for us and could
be realized financially get priority. Luckily, our physical and mental workforce can
always achieve our plans;” “The first step is making a business-review related to the
given year [the year the plan is for]. This is followed by creating of a business plan,
which later gets broken down into company and department goals.” Moreover, some of
those 11 use quite a systematic procedure to develop their plan:

   Step 1: we determine the state we’d like to reach after 5 years - the way we want
to see the company in 5 years. Step 2: We reduce this condition to programs, the
programs to classes, organic items; we give dates to these, and determine the tasks
of the items exactly.

   We have short-, medium-, and long-term plans. For short-term plans we have
production plans: to complete orders and to have them continuously. For medium-
term plans we develop a strategy to expand a certain product-family. Long-term
plans are to increase our market volume, to develop products and technology. We
make a yearly plan by creating a yearly program (measured by income and other
factors; 90% of the production is made here). We also have weekly and monthly
plans. If production demands are increased, then it implies technological
development, the expansion of the number of employees, and the growth of
human resources as well. It is also controlled back to see if the plan is working at
all.

The majority (7) of these 11 companies have more than 50 employees. None of the
Russian respondents actually clearly said that they develop a written document that
contains their plan or strategy.

   Here, substantive differences in the business practices of the respondents finally
start to emerge. In the case of the majority of the Russian companies the owners decide
on the direction that the company should develop and the managers are given the task of
implementing the owners’ vision. In the Hungarian case, the manager is the owner who, in the case of a small company, decides what the plan will be, or, in the case of a larger company, discusses the future plans with his/her subordinates. In both countries bigger companies have some regular procedures for plan development, but whereas for the Russian companies we only know that they use their Marketing Department to collect data for the plan, the Hungarian companies actually create a document to follow as their plan.

The majority of the Russian respondents that develop a plan or a strategy have more than 50 employees (16 of 22) and are located in Saratov – the biggest city in the region (18 of 22) (Table 7.3, Appendix 7). Whereas the majority of the Hungarian companies that have more than 20 employees develop a plan or a strategy, more than half of the Hungarian companies with less than 20 employees (15 of 27) do not (Table 7.3, Appendix 7). The majority of the Russian companies that do not have a plan (17 of 29) are from the food, beverages, and tobacco industry; in addition, the majority of the companies from that industry overall do not develop a plan or a strategy (Table 7.3, Appendix 7). Finally, for the first time the influence of the management training on the respondents’ behavior is observed - in both countries, the majority of the companies whose respondents have had some management training develop a plan or a strategy and the majority of the companies whose respondents have not had any management training do not (Table 7.3, Appendix 7).
**Performance**

The following discussion of the measures that the respondents use to measure their organization’s performance revolves around the following dichotomy: profit and market-related measures vs. old style volume of production and similar measures.

Ninety eight percent of the Hungarian companies and eighty four percent of the Russian companies evaluate their organization’s performance (Table 9). The comparison of the methods that the companies in the two countries use gives unpredictable results: a large percentage of the Russian companies (26 companies or 60%) use profit as their measure, and their proportion is higher than the proportion of the Hungarian companies that do (20 companies or 38%) (Table 10). The percentage of the companies that use the volume of production as one of their measures is very similar in both countries – 26% (14 companies) in Hungary and 28% (12 companies) in Russia, and only a slightly lower percentage of the Hungarian companies (11% vs. 19% of the Russian companies) use sales numbers as a measure of their organization’s performance (Table 10).

Naturally, this is not the result that one would expect having hypothesized that Hungarian companies are more market oriented than Russian companies. I expected the percentage of the Hungarian companies that use profit as their measure to be much higher in general and to be higher than the percentage of the Russian companies that use profit.
Table 10. Distribution of Companies by the Measures That They Use To Evaluate Their Performance
(percent of companies that evaluate their organization’s performance – 53 in Hungary and 43 in Russia; the totals add up to more than 100%, because companies use more than one measure simultaneously)

<table>
<thead>
<tr>
<th>Measures companies use to evaluate their organization’s performance</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Profit and/or profitability*</td>
<td>20 (38%)</td>
<td>26 (60%)</td>
</tr>
<tr>
<td>2. Answers that were referring to profit*</td>
<td>4 (8%)</td>
<td>0</td>
</tr>
<tr>
<td>3. Other financial measures*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Accounting</td>
<td>13 (25%)</td>
<td>4 (9%)</td>
</tr>
<tr>
<td>- Revenue/Income</td>
<td>3**</td>
<td>2</td>
</tr>
<tr>
<td>- Turnover</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>- Fulfillment of our financial plan</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- Fulfillment of our business plan</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- Budget</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- Some financial aspects</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- Some other answer²</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4. Volume of sales, sales plan</td>
<td>6 (11%)</td>
<td>8 (19%)</td>
</tr>
<tr>
<td>5. Volume of production, number of orders, number of contracts, number of clients, volume of total work, how much of our production capacity is utilized, performance of the production process</td>
<td>14 (26%)</td>
<td>12 (28%)</td>
</tr>
<tr>
<td>6. Prices on our products</td>
<td>0</td>
<td>3 (7%)</td>
</tr>
<tr>
<td>7. Our market share</td>
<td>0</td>
<td>3 (7%)</td>
</tr>
<tr>
<td>8. Volume of goods stored in the warehouse</td>
<td>0</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>9. Quality of our product</td>
<td>5 (9%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>10. Release of new types of products/# of new models released</td>
<td>0</td>
<td>3 (7%)</td>
</tr>
<tr>
<td>11. Customer Satisfaction</td>
<td>4 (8%)</td>
<td>0</td>
</tr>
<tr>
<td>12. Fulfillment of orders/following deadlines/number of complaints</td>
<td>8 (15%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>13. Other: Social package; how comfortable the workplace is, sanitary norms</td>
<td>0</td>
<td>2 (5%)</td>
</tr>
<tr>
<td>14. No Usable Answer</td>
<td>4 (8%)</td>
<td>0</td>
</tr>
</tbody>
</table>

¹ Profitability was only mentioned by Russian enterprises.
² One Hungarian respondent gave an answer that makes me believe that the company indeed uses an evaluation of its revenues and expenditures to measure their organization’s performance, but the respondent was not clear about it: “Production value, sold quantity, incoming orders, energy expenditures, incoming bank fees.” This company’s answer was coded in 5, 4, and 3, and the reason that it was coded in 3 was because it seems to me that the respondents would not be analyzing their expenditures if they did not estimate their revenues or at least how much money comes in, which would be a more market-based type of behavior.
* Mutually exclusive categories except for one case – a Russian company, whose answer was counted in the profit/profitability category and in the other financial measures category.
** One company indicated both the income and accounting as their way to measure their organization’s performance.
as their measure, in particular. I expected the percentage of the Hungarian companies that use production and sales numbers as measures of their organization’s performance to be much lower than the percentage of the Russian companies.

A few explanations can be offered to understand the results. Focus on the profit category first. In addition to the twenty Hungarian companies that clearly stated that they use profit as a measure of their organization’s performance, four more companies (8%) though not using the word “profit” seemed to be referring to profit in their answers: “We measure it by the ratio of expenditures to income.;” “We measure it through analyzing expenses and income;” “We compare the revenue, efficiency and the costs.” In addition a large number of the Hungarian companies (13 or 25%) mentioned some other financial measures like revenue, income, money circulation, turnover, or gave an answer that was not very specific, but was obviously referring to financial measure: “We measure it by financial aspects” or “the work of the accountant,” or even indicated the use of a computer program to do a complete system measurement:

We do a complete system measurement (by price, income, expenses, and all the other factors completely). There is a lever-balance, too: a monthly evaluation (which doesn’t contain some lesser things), and a precise balance in every three months, which measures the performance in the respects of income, expenses, payments, taxes, and many other things, with the help of a computer program.

In other words, these companies did not use the term “profit” as the measure of their organization’s performance, but they did use measures that were clearly not an old-style command economy type of measures as we know them. If we combine the answers in the above three categories (1,2, and 3 of Table 10), then the proportion of the companies that use some kind of financial measure to evaluate their organization’s performance becomes 70% in both countries (37 companies in Hungary and 30 companies in Russia).
So, this poor use of business terms may explain why so few Hungarian companies actually indicated profit itself as their measure. That does not explain, however, why so many Russian companies did. Or perhaps the reason is very similar. Regardless of its seeming unimportance in the Soviet economic system, profit as a measure still existed in the ‘old days’ and was one of those plan figures that enterprises had to fulfill. Andrew Freris goes as far as to argue that profit played an important role: “Enterprises in the Soviet Union do exercise a degree of control over the formation and execution of their plans notwithstanding the degree of centralization of investment decision. Profits are an important variable in the decision-making of the enterprise because they are a part of the plan and also because they are the main source of bonuses.”13 In other words, it is just one of those measures that the enterprises have carried through the transition from before, because it fits the new system. In fact, 16 of the 26 Russian companies that use profit as their measure used to be in state ownership and 1 company still is. Even though the majority of the Hungarian companies that use profit are in private ownership and have never been privatized (17 out of 20), we do not know how many of them existed in some other form of ownership before the restructuring and, thus, cannot really make any conclusions in this regard. One thing that does stand out about these Hungarian respondents, though, is that the majority of them have not had any management training (Table 7.5, Appendix 7).

Apart from the above mentioned differences, there are a number of country-specific measures. Only Russian companies mentioned prices on their products, their market share, the volume of goods stored in the warehouse, release of new types/models,

social package, and the comfort of the workplace as their measures of organizational performance. A larger proportion of the Hungarian companies use the quality of their product and the quality of their services (whether they follow the deadlines or not) as their measures (Table 10); and only Hungarian companies mentioned customer satisfaction. In other words, besides using the volume of production and the volume of sales, Hungarian companies by and large utilize market-based measures to assess the work of their companies. Some of the Russian companies, on the other hand, still exhibit some old habits, which are especially pronounced in such measures as the volume of goods stored in the warehouse, number of new products released, and the social package.

Of the Russian companies that do not evaluate their performance, the majority have less than 50 employees and come from towns with a population of less than 50,000 people; all of them are from the food, beverages, and tobacco industry (Table 7.4, Appendix 7). All of the Russian companies, whose respondents have had some management training, measure their organization’s performance; and it seems that the younger the respondent the more likely his/her company to measure its performance – all 5 of the youngest Russian respondents’ companies measure it, only 12% of the respondents between the ages of 35 and 45 are with the companies that do not (4 of 33), and as much as 50% of the respondents between the ages of 45 and 55 work for companies that do not measure their organization’s performance (4 out of 9 companies) (Table 7.4, Appendix 7).
**Competitors**

All of the Hungarian respondents indicated that their companies have competitors on the market. Six (12%) of the Russian respondents either do not have any competitors or they don’t know if they have any competitors; some of them explained that there was no need for them to know that. Another 2 Russian respondents said that they did not care if they had any competitors or not: “I never considered it. It does not matter to me;” “We don't measure it. Don't even think about it. We have our niche on the market.” Even though the proportion of these 8 companies overall is quite small (16%), they represent the clearest example that we have seen so far of the communist legacies in the business practices of the Russian respondents.

Thirty five percent of the Hungarian respondents and twenty four percent of the Russian respondents indicated that it is very necessary for an organization in their business environment to regularly evaluate its competitors’ performance/strengths/weaknesses/strategies (they marked an answer of 7 on a seven point index) (Figure 1). Twenty three percent of the Hungarian respondents and forty three percent of the Russian respondents said it is not necessary at all for an organization in their business environment to regularly evaluate its competitors’ performance/strengths/weaknesses/strategies (they marked an answer of 1 on a seven point index) (Figure 1). The distribution of the answers along the index is almost identical for the two countries with the exception of category 5 –15% of the Hungarian respondents marked answer 5 on a seven point index and only 8% of the Russian respondents did (Figure 1). The t score of |2.2478| obtained from the t-test is statistically significant
Since the five categories in between 1 and 7 received fewer answers, I decided to collapse the answers into fewer categories to see if I could get a better idea of the distribution of the answers for each country. I created 4 categories out of the existing 7 as follows: 1 remained unchanged, answers 2 and 3 were combined into category 2, answers 4 and 5 were combined into category 3, and answers 6 and 7 were combined into category 4. The distribution of the answers in four categories by country is shown in Figure 2.

**Figure 1.** Distribution of Responses to Question 17 “Is it necessary for an organization in your business environment to have regular evaluation of its competitors’ performance/strengths/weaknesses/strategies? (the number on the bar is the number of responses)

**Figure 2.** Distribution of Responses to Question 17 “Is it necessary for an organization in your business environment to have regular evaluation of its competitors’ performance/strengths/weaknesses/strategies? (the number on the bar is the number of responses)
Running the t-test on the new variable by country shows again that the difference between the two countries is statistically significant (we obtain a t score of \( |2.3106| \)). What it tells us is that the Hungarian respondents are more likely to consider it necessary to evaluate their competitors’ performance/strengths/weaknesses/strategies than the Russian respondents. In fact, eighty one percent of the Hungarian companies evaluate their competitors’ performance/strengths/weaknesses/strategies and only forty five percent of the Russian companies do (Table 11).

<table>
<thead>
<tr>
<th>Evaluate</th>
<th>Hungarian Respondents</th>
<th>Russian Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate</td>
<td>44 (81%)</td>
<td>23 (45%)</td>
</tr>
<tr>
<td>Do not evaluate</td>
<td>10 (19 %)</td>
<td>28 (55%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

The variation in the responses may not be contributed to some country specific differences, though, as have been hypothesized, but rather to certain characteristics of the respondents (companies as well as managers). Of the descriptive information available some minor differences do appear between the respondents that gave different answers, but they are mainly confined to the differences between the respondents of the same country (Table 7.6, Appendix 7). What is at issue is whether respondents with certain characteristics systematically display similar behavior regardless of their country of origin. For example, a large proportion of the Russian respondents that did not think it was necessary for them to evaluate their competitors’ performance/strengths/weaknesses/strategies had never had any management training (20 of 22 respondents, Table 7.6, Appendix 7). This suggests that the management training of
the manager influences the company’s market orientation. At the same time there is practically no difference between the Hungarian respondents that have had some management training and the ones that have not had any (Table 7.6, Appendix 7). This, in turn, suggests that that characteristic alone is not enough to explain the differences in the respondents’ behavior and that there is something about Russia that sets the two groups of managers apart (the ones that have had management training and the ones that have not), which is not present in Hungary.

A few other suggestions found in the data are the larger the company, the more likely it is to perceive it necessary to pay attention to its competitors (more than 20 employees in the Hungarian case and more than 50 employees in the Russian case); and the older the respondent the less likely he or she is to perceive it necessary to pay attention to his/her company’s competitors (above 55 in the Hungarian case and above 45 in the Russian case) (Table 7.6, Appendix 7). In fact, if we look at the distribution of the companies that do evaluate their competitors’ performance/strengths/weaknesses/strategies and those that do not, a larger number of the Russian companies that employ less than 50 employees do not (Table 7.7, Appendix 7). In Hungary, though, the companies that employ less than 20 employees make up the biggest proportion of the companies that do not evaluate their competitors; but even a much larger number of the companies with the same number of employees do (Table 7.7, Appendix 7). In other words, there is a much more significant difference between the companies of different sizes in Russia than in Hungary, which again brings us back to some country specific differences rather than cross-country ones. The same holds true for the age of the respondent: a larger proportion of the Russian respondents 45 years or
older do not evaluate their competitors, but in the Hungarian case the difference is not there (Table 7.7, Appendix 7).

One concern, again, is probably the fact that 14 of the 22 Russian companies that did not think it was necessary to evaluate their competitors are from the food, beverages, and tobacco industry, and that 16 of the 24 companies from that industry do not do any kind of evaluation of their competitors (Table 7.7, Appendix 7). Otherwise, even though the data suggest some possible explanations as to what makes a company more market oriented in regards to paying attention to its competitors, there is no strong evidence that the differences are indeed attributed to some company specific characteristics rather than some country specific ones.

Two of the Russian respondents, whose companies do not evaluate their competitors, indicated that they would like to do it or would be interested in it, but that their companies do not have anything in place to perform any kind of evaluation. Two other Russian companies and two Hungarian companies explained their ‘no’ answers by the fact that they have enough work and, thus, there is no reason to worry about competition: “We don't really measure it. We keep an eye on the others, but we don't really care about them; we just work as much as we can, because we have work. If we didn't have work, then we'd surely envy them” (a Hungarian respondent); “It is meaningless; we are doing our work, which is the most important” (a Hungarian respondent); “Don’t do it. We have enough orders” (a Russian respondent). Two Hungarian companies and one Russian company said that it is simply impossible to evaluate their competitors, and so they do not do it. One Russian company indicated that their competitor is not really a competitor, but rather more like a partner: “We talk to
each other, discuss technology. There is probably only one company in our town that we can consider a competitor; the rest are just private people. They work alone. With this one company we have a kind of a ‘gentleman’s’ agreement - we try not to cross each other's paths. We are more like partners.”

Table 12. Methods That Respondents Use To Evaluate Their Competitors’ Performance / Strengths / Weaknesses / Strategies (percent of companies that evaluate their competitors’ performance / strengths / weaknesses / strategies - 44 in Hungary and 23 in Russia; totals add up to more than 100%, because some companies use more than one method).

<table>
<thead>
<tr>
<th>Methods the respondents use to evaluate their competitors’ performance / strengths / weaknesses / strategies</th>
<th>Hungarian Respondents</th>
<th>Russian Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Espionage.</td>
<td>0</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Marketing department does it.</td>
<td>0</td>
<td>8 (35%)</td>
</tr>
<tr>
<td>Competitors’ reports; reports of a market-research company.</td>
<td>3 (7%)</td>
<td>0</td>
</tr>
<tr>
<td>We study/research the market; we monitor their prices, their volume of production, their volume of sales; we analyze their market share.</td>
<td>12 (27%)</td>
<td>6 (26%)</td>
</tr>
<tr>
<td>We evaluate our competitors through their products</td>
<td>13 (30%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>Info from customers/sellers/other people about our competitors</td>
<td>14 (32%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>Personal conversations/relations/connections with competitors</td>
<td>10 (23%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Indirectly through the opinion of our customers about us, through our volume of sales, through our profit, by monitoring if we are loosing any customers.</td>
<td>6 (14%)</td>
<td>3 (13%)</td>
</tr>
<tr>
<td>Through info out there; going through paper ads; observations.</td>
<td>7 (15%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>No specific methods</td>
<td>0</td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

The companies that do evaluate their competitors’ performance/strengths/weaknesses/strategies use different kinds of methods (Table 12). There are a number of differences between the two countries. First, even though fewer Russian companies evaluate their competitors’ performance/strengths/weaknesses/strategies, most of those that do either have a marketing department that takes care of it (8 companies or 35%) or they do some kind of market research and analyze their competitors’ prices, sales, and market share (6}
companies or 26%) (Table 12): “We mainly analyze the prices of our competitors - we go to them pretending we are potential customers and ask what kind of products they offer and at what price; sometimes we take some ideas from them, if we see something we like;” “Through secondary sources about the volume of sales of our competitors.”

Five of the companies that rely on their marketing departments did not want to give out any more information besides the fact that their Marketing department does it explaining that it is confidential; one other respondent simply said that he did not know how exactly the marketing department did it. In other words, it is not clear just how much of an actual evaluation of their competitors those companies do, because the respondents could not explain it. As was the case earlier in the analysis, these 8 are big companies (one company employs between 50 and 99 people and the rest employ more than 100 people) and the majority of them (5) used to belong to the state but have been privatized with one other still in state ownership.

None of the Hungarian companies indicated that they have a marketing department. Some of them (12 companies or 27%) do perform some kind of market research, though: “We pay attention to what the competitor has done in the previous month, what new products it has introduced, what size of the market share it has taken over, for instance, weather it lured a big customer away from us – we watch it jealously. We also watch financial reports, commercial data monthly, and there are serious reports in every quarter.” The majority of the Hungarian respondents either gathers information about their competitors from their customers/resellers/other people (14 companies or 32%) or focus on their competitors’ products (13 companies or 30%) (Table 12):

I measure it through customers' opinion. There is a meeting for … teachers twice a year: one is for the primary school … teachers and the other one is for the
secondary school teachers. We participate in these meetings as exhibitors. And if a ... teacher comes to us for a talk, then we become aware of the work of our competitors.

We divided the market with our competitors. They produce plastic tools, we produce metal tools. We are a company in ... but we have had purchase orders even from Miskolc and Kiskunhalas. From Nyíregyháza through Hajduböszörmény to Artánd we have a good relationship with everyone. And I get information from many contractors. I give information as well of course and that is why I can always know who is doing which work and what my competitor is doing the current day. This is a very open market.

We gather information about the competitor’s products via conversations with other managers. Also, we can examine them once they are out on the market.

About the same proportion of respondents in both countries use the performance of their own company as an indirect indicator of how their competitors are doing (6 or 14% of the Hungarian companies and 3 or 13% of the Russian companies, Table 12): “We don’t have particular methods, generally we draw conclusions from the changes in the number of our partners - i.e. if we loose a business partner, it means he/she went to someone else, and vice versa” (a Hungarian businessperson); “We talk to our customers about our company and the quality of our product. The idea is that if they choose us, it means we are better; in other words, their evaluation of us is an indirect indicator of how our competitors are doing” (a Russian respondent).

To summarize, measured numerically, the Hungarian companies do appear to be more market oriented when it comes to evaluating their competitors, because a much greater number of them perform some kind of an evaluation. Substantively, however, the respondents in both countries use quite similar methods with a number of Russian companies even demonstrating a more advanced approach by having a marketing department to carry out the task.
Quality of the Product

The differences between the two countries become even more pronounced as we move to the set of questions dealing with the comparison of a company’s own products with those of its competitors. Sixty-five percent of the Hungarian respondents and only twenty-eight percent of the Russian respondents gave an answer of 7 to question 18 “Is it necessary for an organization in your business environment to regularly evaluate its products’ quality vis-a-vis its competitors’ products’ quality?” (Figure 3). Thirty-five percent of the Russian respondents indicated that it is not necessary at all (as compared to only 11 percent of the Hungarian respondents) (Figure 3). The t-score of |4.4290| of the t-test comparing the two distributions indicates that the difference between them is indeed statistically significant.

Figure 3. Distribution of Responses to Question 18 “Is it necessary for an organization in your business environment to regularly evaluate its products’ quality vis-a-vis its competitors’ products’ quality?” (the number on the bar is the number of responses)

An analysis of the respondents’ characteristics shows similar trends as before. All six Hungarian respondents that do not consider it necessary to compare their products to their competitors’ products have fewer than 20 employees (Table 7.8, Appendix 7). A
larger proportion of the Russian companies that consider it important have more than 50 employees (Table 7.8, Appendix 7). Half of the Russian companies that gave an answer of 1 are in the food, beverages, and tobacco industry (Table 7.8, Appendix 7). A larger proportion of the Russian respondents over 45 years old think that it is not necessary to perform any kind of comparison of their company’s products with those of their competitors (Table 7.8, Appendix 7). Management training of the respondent shows practically no influence on this question (Table 7.8, Appendix 7).

Forty-seven percent of the Russian respondents and only nine percent of the Hungarian respondents do not compare their company’s products with their competitors’ products (Table 13). The t score of |4.7314| tells us again that the difference between the two distributions is statistically significant.

Table 13. Distribution of Companies by Whether They Evaluate Their Products’ Quality Vis-À-Vis Their Competitors’ Products’ Quality

<table>
<thead>
<tr>
<th></th>
<th>Hungarian Respondents</th>
<th>Russian Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate</td>
<td>49 (91%)</td>
<td>27 (53%)</td>
</tr>
<tr>
<td>Do not evaluate</td>
<td>5 (9%)</td>
<td>24 (47%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

Four of the five Hungarian respondents that do not perform any kind of comparison of their product with that of their competitors’ have fewer than 20 employees (Table 7.9, Appendix 7). A larger proportion of the Russian companies that does have 50 or more employees, and the majority of the companies with 50 or more employees do (Table 7.9, Appendix 7). Finally, a larger proportion of the Russian managers over 45 years old do not compare their products’ quality with the quality of their competitors’ products (Table 7.9, Appendix 7). The results are very nonsystematic, however, and do
not provide a stable ground for concluding if any of those characteristics significantly influence the respondents’ answers.

Four of the Russian respondents whose companies do not do any evaluation of the quality of their products vis-à-vis the quality of their competitors’ products, said that they do not do it, because the products are all the same everywhere and you can only compete with providing better prices or more or better services. One of the Hungarian respondents said:” We all know how to do our job – we buy the same materials, use the same equipment.” Two other Russian respondents said that they simply let the customer make the decision whose product is better: “Don't do it. It's important, but we don't do anything; we let the customer choose the producer (according to the price/quality criteria).”

**Table 14. Methods That Companies Use to Evaluate Their Products’ Quality Vis-À-Vis Their Competitors’ Products’ Quality**

<table>
<thead>
<tr>
<th>Methods that companies use to evaluate their products’ quality vis-à-vis their competitors’ products’ quality</th>
<th>Hungarian Respondents</th>
<th>Russian respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>More or less structured analysis: buying products, taking them apart, etc.</td>
<td>2 (4%)</td>
<td>13 (48%)</td>
</tr>
<tr>
<td>Some kind of analysis: comparing products by looking at them, etc.</td>
<td>13 (27%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Indirectly through the measures of our performance: volume of sales of own products; if we don’t have enough work; if we lose a customer, etc.</td>
<td>6 (12%)</td>
<td>4 (15%)</td>
</tr>
<tr>
<td>Talking to customers about competitors’ products</td>
<td>2 (4%)</td>
<td>3 (11%)</td>
</tr>
<tr>
<td>Watching the quality of our own products</td>
<td>31 (63%)</td>
<td>2 (7%)</td>
</tr>
<tr>
<td>Experience</td>
<td>4 (8%)</td>
<td>3 (11%)</td>
</tr>
<tr>
<td>Done by our parent company</td>
<td>1 (2%)</td>
<td>0</td>
</tr>
<tr>
<td>No particular method</td>
<td>0</td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

Respondents’ answers to the question of how their company evaluates its products’ quality vis-à-vis its competitors’ products’ quality show some interesting
results. The predominant number of the Russian companies (48% or 13 companies) compare the two by performing some kind of what I will call a structured analysis of their competitors’ products - buying them, taking them apart, analyzing their characteristics:

“We buy our competitors' products, take them apart, analyze their technology, determine bad and good qualities, sometimes take some of their ideas into consideration;” “We have a lab that compares the characteristics of our products with the characteristics of our competitors’ products.” Only 4% (2) of the Hungarian companies do so, with another 27% performing some kind of analysis: “Of course we compare… Talking… But we only compare how the product looks;” “By comparing them together in quality and price [by looking at them].”

The majority of the Hungarian companies (63%) that said that they evaluate their products’ quality vis-a-vis their competitors’ products’ quality in reality do not perform any comparative analysis, but rather make sure that the quality of their products is good, meets certain standards, or that their customers are satisfied with it (Table 14): “We produce the product of the best possible quality; there is no other way; this is out of the question. If somebody cannot afford our honest and clean-handed work, he is not our guy;” “It is built in the working process through the control points. It is always active. We filter out damaged products through the process of the work sections. At the end of this process a quality assurance inspector checks the product again.”

About the same proportion of companies in both countries compare their products’ quality with their competitors’ products’ quality indirectly through their companies’ performance: “We can feel it if we don't have enough work to do; we become suspicious that we did something wrong” (a Hungarian respondent); “We can sense it by
getting new orders and work, or not” (a Hungarian respondent); “We measure it by the volume of sale of our own products (if we sell a large quantity of our products, it means that our quality is better)” (a Russian respondent); “People that buy our products wholesale tell us how much of our products get sold as opposed to our competitors’ products” (a Russian respondent).

To summarize, the Hungarian respondents appear more market oriented than the Russian respondents, because a much larger number of them compares their products’ quality with their competitors’ products’ quality. The Russian companies that perform any kind of a comparison, however, often use more advanced techniques than the Hungarian companies do.

**Customer Satisfaction**

Seventy four percent of the Hungarian respondents (40 companies) consider it very necessary to regularly evaluate their customers’ satisfaction (they gave an answer of 7 on a seven-point index, Figure 4). That compared to only 21% of the Russian

![Figure 4](image_url)
respondents (11 companies, Figure 4). Only about 5% of the Hungarian respondents and almost 40% of the Russian respondents gave an answer of 1 – not necessary at all (Figure 4). The t score of |6.9317| tells us that the difference in the two distributions is statistically significant.

All 20 Russian respondents that gave an answer of 1 had never had any management training (Table 7.10, Appendix 7). Seventeen of those companies used to be in state ownership, but have been privatized, and 14 are in the food, beverages, and tobacco business (Table 7.10, Appendix 7). Nothing particular stands out about the Hungarian respondents in either case (Table 7.10, Appendix 7).

Ninety-six percent of the Hungarian companies regularly evaluate their customers’ satisfaction (Table 15). That compared to only forty-seven percent of the Russian respondents (Table 15). The t-test yields a t score of |6.6904|, which tells us that the two distributions are statistically different.

| Table 15. Distribution of Companies by Whether They Measure Their Customers’ Satisfaction or Not |
|-----------------------------------|--------|--------|
| Measure                           | Hungary | Russia |
| 52 (96%)                          | 24 (47%)|
| Do not Measure                    | 2 (4%)  | 27 (53%)|
| Total                             | 54 (100%)| 51 (100%)|

The distributions of the Russian companies that measure their customers’ satisfaction and those that do not show some differences, but the differences are very minor and insignificant (Table 7.11, Appendix 7). The only major concern still stems from the fact that a larger proportion of the Russian companies from the food, beverages, and tobacco industry do not measure their customers’ satisfaction (Table 7.11, Appendix 7). A large number of the companies from this industry group still do, though, which
makes it difficult to assume that the over-representation of this industry in the responses is significantly affecting the results in this case.

A number of the Russian respondents that said that their company does not evaluate its customers’ satisfaction made references to a number of measures that other companies considered as measures of customer satisfaction. For example, four of these Russian companies use the volume of their sales or their company’s profit as their only measure for everything; as can be seen in Table 16 a number of other respondents put these measures as their measures of customer satisfaction. Another example would be the companies that do not measure their customers’ satisfaction, but believe that if their customers come back to them, they are satisfied, or that talk to their customers and listen to their opinion. The reason that these answers were not included in the following analysis is because the respondents themselves did not consider them as measures of customer satisfaction.

One of the two Hungarian companies that do not evaluate their customers’ satisfaction believes that it is not necessary: “It’s not worthy to evaluate it, because Hungarian customers don’t have much money, they have weak purchasing power and only cheap products can be sold. People aren't interested in quality.” This opinion stands alone as the rest of the Hungarian respondents demonstrated that it was important to their companies to know if their customers were satisfied with their work or not.

Overall, two methods appear to dominate the answers in both countries – the use of questionnaires or surveys, and personal communications with customers (Table 16).

The respondents from both countries also equally use some measures of their organization’s performance and complaints or the quality of their product as an indirect
measure of their customers’ satisfaction: “We monitor certain characteristics of our products; the idea is that if the measurements of those characteristics are good, which means the quality is good, then, we assume, the customer will be happy” (a Russian respondent); “We can guess it from the responses, and the amount and content of the orders” (a Hungarian respondent); “We produce for other companies and when we deliver the product the customer examines the product by randomly picking one and then gives a response (if the product is good or not) through the records. We also have to adhere to a certain Hungarian standard” (a Hungarian respondent); “We work closely with people that sell our products and they monitor the volume of sales of our products. We monitor what product sells better and what product doesn’t sell as well; some products disappear instantly; this is how the main product lines develop” (a Russian respondent).

Only Hungarian respondents (6 respondents or 12%) measure how satisfied their customers are by whether they come back or not – “We don’t use questionnaires or similar things at all. It happens through personal discussions; the customer lets me know if something is not in order or if there is a problem. If he doesn’t say anything, but

<table>
<thead>
<tr>
<th>Method</th>
<th>Hungarian Respondents</th>
<th>Russian Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction questionnaire; surveys</td>
<td>18 (35%)</td>
<td>8 (33%)</td>
</tr>
<tr>
<td>From talking to customers</td>
<td>30 (58%)</td>
<td>10 (42%)</td>
</tr>
<tr>
<td>Amount of orders, sales statistics, company’s profit</td>
<td>7 (13%)</td>
<td>5 (21%)</td>
</tr>
<tr>
<td>Checking quality/complaints</td>
<td>7 (13%)</td>
<td>3 (13%)</td>
</tr>
<tr>
<td>If the customer comes back or not/if we keep the contract or not</td>
<td>6 (12%)</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>2 (4%)</td>
<td>2 (8%)</td>
</tr>
</tbody>
</table>
doesn’t return either, that’s a warning to me, too;” “We can measure it by the customer’s response, there are no questionnaires. We usually work for other companies, and if we aren’t good enough for them, we are simply replaced by another one.”

**Conclusion**

One common trend surfaced from the analysis of all the questions discussed above - the results of the quantitative analysis of “yes and no” and index questions portray the Hungarian respondents as more market oriented than the Russian respondents, but the qualitative inquiry into their answers draws a more complex picture. Fewer Russian companies indeed exhibit market-oriented behavior than the Hungarian companies, but those that do often use more advanced methods in their work – for example, having a Marketing Department to evaluate their competitors, or using profit as the main measure of their organization’s performance, or undertaking a more thorough and complex comparison of the quality of their product with that of their competitors’. Company and respondent characteristics overall have no or little influence on the variation of the responses across the countries with only one concern persistently present throughout the analysis – a large proportion of the Russian companies that are less market-oriented come from the food, beverages, and tobacco industry. These results and their implications are discussed in greater detail in Chapter 8.
CHAPTER 7

INFLUENCE OF THE EXTERNAL ENVIRONMENT

The analysis in this chapter focuses on three main topics: 1) outside factors that assist the respondents in their work; 2) outside constraints that create obstacles to their work; and 3) political and economic events the respondents think have had an influence on their business environment and their jobs as managers.

External Positive Factors

Seventy three percent of the Russian respondents (37 companies) did not think that there were any external factors that helped their organization achieve its goals or execute its plans, or that simply positively affected their organization’s performance (Table 1). In contrast, sixty five percent of the Hungarian companies could identify some elements of their environment as positive (Table 1).

Table 1. Distribution of Companies by Whether There Are Any External Factors That Positively Affect Them

<table>
<thead>
<tr>
<th></th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>35 (65%)</td>
<td>14 (27%)</td>
</tr>
<tr>
<td>No</td>
<td>19 (35%)</td>
<td>37 (73%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

There is no overall systematic difference between the respondents that gave different answers with one exception - fifty percent of the Russian respondents that could not identify anything positive about their external environment were in the food, beverages, and tobacco industry (Table 8.1, Appendix 8). Furthermore, the majority of the companies from that industry group (19 of 24 or 79% of 24) did not think there was
anything positive in their external environment that helped them in their work (Table 8.1, Appendix 8).

The most often mentioned positive factors by the Russian companies were seasons/holidays (4 companies), economic instability or crises (3 companies), and some kind of market-related factors (3 companies) (Table 2). The companies that benefit from economic instability are the ones whose product becomes a necessity when people get poorer: “Economic instability - people buy more bread.” The market related factors mentioned by the three Russian companies were the growing demand for their product, orders from their customers, and growth/development of their product-specific market.

In contrast, market-related factors dominated the answers of the Hungarian companies (17 companies or 49%, Table 2). The most prevalent of these were good business contacts, good business partners, and having good relationship with business partners (10 companies or 29%): “Good work of domestic suppliers, their correct behavior and exact delivery after agreement. [Interviewer: they depend on domestic suppliers; everyone who works with them has to be on time and organized, and that's how their partners are; they contract with only the best.];” “Yes, there are. Business contacts have a huge share in this. It’s important to know who you make contracts with;” “We are working together with an office furniture studio, so the work is satisfactorily harmonized thanks to mutual interests;” “There is another company like ours in [a different town], who can be considered as a competitor but in reality it is not exactly true. We often help each other out (for example with transportation).”

One striking difference between the respondents from the two countries appears in their perception of the degree of positive influence that the political sphere has on their
Table 2. Positive External Factors (percent of companies that could identify some positive factors – 35 in Hungary and 13 in Russia; totals do not add up to 100%, because some companies mentioned more than one factor in their answers)

<table>
<thead>
<tr>
<th>Positive external factors</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>political situation/environment</td>
<td>3 (9%)</td>
<td>1 (7%)</td>
</tr>
<tr>
<td>government decisions</td>
<td>2 (6%)</td>
<td>0</td>
</tr>
<tr>
<td>government programs</td>
<td>2 (6%)</td>
<td>0</td>
</tr>
<tr>
<td>government assistance (including in-kind)</td>
<td>6 (17%)</td>
<td>1 (7%)</td>
</tr>
<tr>
<td>tenders</td>
<td>5 (14%)</td>
<td></td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>economic situation/environment</td>
<td>5 (15%)</td>
<td>0</td>
</tr>
<tr>
<td>instability/crises</td>
<td>0</td>
<td>3 (21%)</td>
</tr>
<tr>
<td>bank credit/loans</td>
<td>2 (6%)</td>
<td>2 (14%)</td>
</tr>
<tr>
<td>external factors (foreign markets, exchange rate)</td>
<td>4 (11%)</td>
<td>1 (7%)</td>
</tr>
<tr>
<td>taxes</td>
<td>0</td>
<td>1 (7%)</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 (49%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>business contacts / business partners</td>
<td>10 (29%)</td>
<td>0</td>
</tr>
<tr>
<td>customers</td>
<td>3 (9%)</td>
<td>0</td>
</tr>
<tr>
<td><strong>EU membership</strong></td>
<td>2 (6%)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Seasons/Holidays</strong></td>
<td>0</td>
<td>4 (28%)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>4 (11%)</td>
<td>3 (21%)</td>
</tr>
</tbody>
</table>

1 One respondent mentioned both government assistance and tenders in his/her answer.
2 This group included factors that were mentioned once or twice by different companies and could not be categorized anywhere else.
businesses. Forty-nine percent (17) of the Hungarian respondents that could identify some positive external factors attributed certain things to the good political situation overall or good government programs and decisions, or was appreciative of certain government assistance including tenders: \(^1\) “We have been doing this program for years, which is motivating. Furthermore we take part in the Ministry and Union support programs. This system motivates us;” “Yes, the governmental donations [subsidies, financial assistance] are very important and the donations [subsidies, financial assistance] of the Labour Center;” “Other factors are the tendering possibilities - though these heavily depend on different friendships, connections, and interests, one may have.”

In contrast, only 2 Russian companies associated something positive with their political environment. One of them benefits from some kind of government assistance – “Sometimes the government gives away some equipment;” the other one thinks that the political environment overall is helping their work - ” Yes, political - the government and students' parents are paying more attention to literature/books ["show more interest in literature/books"]; [as a result] the demand for textbooks is growing.”

Interestingly enough, only two Hungarian respondents\(^2\) mentioned European Union membership and its possible positive consequences as a factor, which, given the significance of the event, is not what one would expect: “I hope that after we join the European Union the government will work better and corruption won’t be as bad. It is much better here in Hungary if we compare ourselves to Ukraine; but if we compare

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\(^1\) It seems that because of the language specifics or for some other reason what the translators translated as “tenders” was always referring to some kind of financial support from the government that either did not have to be paid back or that had “beneficial” terms of payment.

\(^2\) One other company mentioned the emergence of new markets as a positive factor, but the respondent did not clarify if he meant the markets of the European Union or something else and, thus, the answer was only coded in the market-related factors.
ourselves to Austria, for example, Hungary takes place of Ukraine;” “Yes: Possibilities for developing to EU tenders.”

**External Constraints**

From the fact that Hungary at the time of the survey was already a sure candidate for the membership in the European Union and from the general knowledge about the two countries, one would expect Hungary to have a much healthier and business friendlier political and economic environment than Russia. One, therefore, would expect fewer Hungarian businesspeople to complain about external factors impeding their work. The results of the survey portray a completely different picture. Ninety-one percent of the Hungarian businesses could identify some negative traits of their environment, and that compared to only fifty-one percent of the Russian respondents (Table 3).

<table>
<thead>
<tr>
<th>External Constraints</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>49 (91%)</td>
<td>26 (51%)</td>
</tr>
<tr>
<td>No</td>
<td>5 (9%)</td>
<td>25 (49%)</td>
</tr>
<tr>
<td>Total</td>
<td>54 (100%)</td>
<td>51 (100%)</td>
</tr>
</tbody>
</table>

Overall, nothing in particular distinguishes these respondents from the rest (Table 8.2, Appendix 8). The majority of the Russian companies that face constraints are from Saratov (18 of 26) and, as usual, a larger proportion of the Russian companies from the food, beverages, and tobacco industry gave a no answer – i.e., they do not face any constraints in their work (15 of 24) (Table 8.2, Appendix 8).
Forty one percent of the Hungarian companies and twenty seven percent of the Russian companies identified what I coded as market-originated obstacles to their work:

“Yes, the lack of regular orders - a safety net, so to speak (when we belonged to the state, we had regular/scheduled orders - and now we have to find orders ourselves)” (a Russian respondent); “We constantly have to keep up with the demands of potential customers -

Table 4. Distribution of Companies by External Constraints (percent of companies that could identify some constraints – 49 in Hungary and 26 in Russia; totals do not add up to 100%, because some companies mentioned more than one constraint in their answers)

<table>
<thead>
<tr>
<th>External constraints</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td></td>
<td></td>
</tr>
<tr>
<td>political situation</td>
<td>1 (2%)</td>
<td>3 (12%)</td>
</tr>
<tr>
<td>bureaucracy</td>
<td>4 (8%)</td>
<td>0</td>
</tr>
<tr>
<td>laws; government policies and regulations</td>
<td>10 (20%)</td>
<td>4 (15%)</td>
</tr>
<tr>
<td>lack or insufficient government assistance</td>
<td>7 (14%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Economic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>economic situation</td>
<td>3 (6%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>high prices</td>
<td>4 (8%)</td>
<td>0</td>
</tr>
<tr>
<td>economic instability</td>
<td>0</td>
<td>3 (12%)</td>
</tr>
<tr>
<td>bank credits/loans, interest rates</td>
<td>4 (8%)</td>
<td>2 (8%)</td>
</tr>
<tr>
<td>economic regulations</td>
<td>7 (14%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>taxes</td>
<td>19 (39%)</td>
<td>3 (12%)</td>
</tr>
<tr>
<td>External factors (foreign markets, etc.)</td>
<td>6 (12%)</td>
<td>3 (12%)</td>
</tr>
<tr>
<td>Mention of European Union or EU requirements</td>
<td>6 (12%)</td>
<td>0</td>
</tr>
<tr>
<td>Market –related</td>
<td>20 (41%)</td>
<td>7 (27%)</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>business contacts</td>
<td>5 (10%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>competition</td>
<td>12 (24%)</td>
<td>4 (15%)</td>
</tr>
<tr>
<td>Seasons</td>
<td>1 (2%)</td>
<td>7 (27%)</td>
</tr>
<tr>
<td>Other†</td>
<td>11 (22%)</td>
<td>4 (15%)</td>
</tr>
</tbody>
</table>

†This group included factors that were mentioned once or twice by different companies and could not be categorized anywhere else.
demands that are constantly changing” (a Russian respondent); “Yes. I have to admit that
the Hungarian industrial market is totally sinking. It is in a very bad condition and that is
one of the greatest disadvantages. There is no consuming power and that is especially
ture for the East-Hungarian Region.” In addition, half of the respondents in both
countries that mentioned market-related impediments, viewed competition as a negative
force: “There are a lot of smaller shops that take orders/customers away from us” (a
Russian company); “Yes, a lot of cheap Chinese product, the home product looses
market” (a Hungarian company); “There is too big baking capacity for our market, which
is a result of the governmental donation in 1996. There is too much product for the
market, which affects prices” (a Hungarian respondent); “Competition – they bring bad
quality product from Ukraine and sell to my customers” (a Hungarian respondent); “The
cheap merchandise from the Far-East also belongs here. We can’t compete with them in
price and quality (Chinese, etc.)” (a Hungarian respondent). One Russian respondent
expressed his dissatisfaction with the presence of imported product as well, but when
asked if he was referring to his competition corrected himself and said that he views
competition as a positive factor:

  Respondent: May be the product that is brought in from abroad; they bring them
  in large quantities; their quality is surely better.

  Interviewer: Are you talking about competition?

  Respondent: Yes. But I view competition positively. If there is competition, you
  want to work better, provide better quality.

Whereas seasons and holidays are what bothers the Russian respondents on par
with the market-related factors, the Hungarian respondents are troubled by high taxes: “
Yes. Taxes\(^3\) paid to bureaucrats. It is all right that there are obligations to pay for, to some
degree, but these taxes are too much for us, little companies;” “Yes, payments [to the
government] destroy companies and it is difficult to develop;” “The sum of all taxes that
we have to pay is quite high. We could handle them separately, but all together they take
the majority of our profit; not much is left for us.” Some Russian companies did mention
taxes as a burden, but very few and mainly as the fact that they are constantly changing:
”Constantly changing taxes;” “shuffling of taxes from the federal level to the regional
level and vice versa; tax rates;” “taxes and tax laws are constantly changing.”

As was the case with positive factors discussed previously, the Hungarian
respondents could identify quite a few political or government related factors this time
bringing obstacles to their work. Imperfect laws, bad government policies, and burdening
government regulations seem to be the first on the list of those. Though coded separately,
economic regulations fall into this same group as well, because they are imposed by the
government and depend on who is in the office: “The national economic policies are such
an obstacle (we produce for export, which is very sensible to the changes of the Forint
[Hungary’s national currency]). Although the current economic policy can be considered
good, usually it can’t be predicted;” “The negative effects of financial regulations, taxes,
and social insurance measures. Besides these there are the administration difficulties
(authorizations), bureaucracy, and the state decrees, which are holding back private
companies always looking for more and more money;” “These are obligatory restrictions.
Many people can live quite well with these “laws”, but we (and the small companies) can

\(^3\) In this and some other responses the translation has been altered from the original to replace
words like ‘privations,’ ‘prices,’ ‘attachments,’ which, as translators explained, denoted different kinds of
taxes, with the word “taxes.”
easily perish from them: licensing regulations, taxes; etc.;” “The restrictive regulations issued by the state, and the new laws connected to joining the European Union. [The interviewer: these regulations mostly refer to the taxation, which is unjustifiably high for Hungarian companies, compared to foreign ones, so they have a multiple disadvantage. The E.U. laws refer to the quality-increasing demands, so the quality of products has to fulfill the European standards].”

A number of other Hungarian companies mentioned the changes that have been made to meet the EU requirements as negative as well: “Withdrawal of the tax allowance (because of the EU membership) has influenced our views quite disadvantageously. This is a typical Hungarian problem: they gave them for 10 years, and now things must be reformed. The company lost a lot – respectively will lose from joining the EU;” “There is uncertainty because of the EU requirements, and fear because of the inflow of EU companies. The latter has already begun, and strong competition has emerged.” Given the small number of companies that talked about the EU membership in either negative or positive factors probably reveals that the other problems that their companies face everyday outweigh, at least at this point, any problems that may arise as a result of joining the European Union. I return to this topic below.

Of the political factors mentioned by the few Russian respondents the political situations in the country in general and imperfect and frequently changing legislation were the main concerns: “Laws always change; the political system/regime in the country is not stable; there are difficulties with tax laws; our life is unpredictable...”

Finally, quite a few Hungarian companies were dissatisfied with the withdrawal of government financial assistance (subsidies in some cases) or the lack of government
financial or other kind of support in general; one complaint that came up quite often during interviews, though was only voiced by two people here, is the preferential treatment that multinational companies get from the government, often at the expense of local businesses: “The city gives no support at all. The tenders are self-interested, unfair (the government publishes them and multinational companies get them.). The smaller, private companies get very little support;” “Lack of state support (multinational companies get it).” After one interview a respondent became much more talkative and gave an example of when a multinational company was opening a new store in their town, “everybody” went to the grand opening (by “everybody” the respondent meant the city officials and all the important people), but when their company had its grand opening, no one showed up, because it was just a Hungarian company.

At this point the responses of the Russian companies require comment. Even though some of them mentioned various factors like constantly changing laws, imperfect legislation, bad government policies, and unstable economic or political situation as drawbacks of their environment, nothing in the overall distribution of the responses stands out as a major constraint that Russian companies in general have to face in their work. Moreover, more than a third of the Russian respondents (20 companies or 39 percent) altogether did not think that there were any outside factors that helped their companies nor that there were any outside constraints that presented obstacles to their work (as compared to only 3 Hungarian companies).\(^4\) In other words, what these companies were saying was that there was nothing in their external environment that either positively or negatively upset their equilibrium point (their normal state of being).

\(^4\) The majority (12) of these 20 companies are in the food, beverages, and tobacco industry group.
Combined with the comparatively low number of companies that could pinpoint at some external constraints, one would be led to conclude that Russian businesses overall just face a much healthier and business-friendlier environment than Hungarian businesses. Whereas the lack of positive factors may not be so strange – after all the country is still going through some tough times, the lack of outside constraints is very odd, especially considering how much has been written about various problems that Russian businesspeople regularly encounter from their external environment. What we may be seeing here is either the desire to intentionally overlook that any problems exist, because of the old-time habit of making things look good even if they are not, or an unconscious lack of understanding that problems exist, because they have been a part of the business life for so long that they have become the norm. This is considered in more detail in Chapter 8.

**Political and Economic Events**

Remarkably, we see the same tendency in the respondents’ perception of whether there have been any political or economic events that have had an influence on their business environment and their work or not. Half of the Hungarian respondents pointed at the change of the regime in 1989 as one of those major events, whereas none of the Russian respondents even used the words “regime change” in their answers (Table 5). ‘Perestroika’ – the event that the West sees as the policy that ‘started it all’ – was only mentioned by 2 Russian managers (Table 5). Probably the closest to the regime change in

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Table 5. Political and Economic Factors That Have Had an Influence on the Respondents’ Business Environment (percent of total)

<table>
<thead>
<tr>
<th>Political/economic events</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall political changes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of the regime</td>
<td>27 (50%)</td>
<td>0</td>
</tr>
<tr>
<td>Perestroika (Russia)</td>
<td>2 (4%)</td>
<td>8 (16%)</td>
</tr>
<tr>
<td>Putsch of 1991 (Russia)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Economic changes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When state financing ended</td>
<td>0</td>
<td>3 (6%)</td>
</tr>
<tr>
<td>Privatization</td>
<td>5 (9%)</td>
<td>4 (8%)</td>
</tr>
<tr>
<td>Establishment of private companies/ownership</td>
<td>2 (4%)</td>
<td>0</td>
</tr>
<tr>
<td>Crisis of 1998 (Russia)</td>
<td></td>
<td>23 (45%)</td>
</tr>
<tr>
<td>Establishment of / shift towards market economy</td>
<td>2 (4%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td><strong>Government changes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Every election</td>
<td>1 (2%)</td>
<td>3 (6%)</td>
</tr>
<tr>
<td>Change of cabinet/government in general</td>
<td>5 (9%)</td>
<td>0</td>
</tr>
<tr>
<td>Policies of the current national government</td>
<td>9 (17%)</td>
<td>2 (4%)</td>
</tr>
<tr>
<td>When the current local government took office</td>
<td>0</td>
<td>2 (4%)</td>
</tr>
<tr>
<td>Joining the European Union (Hungary)</td>
<td>10 (19%)</td>
<td></td>
</tr>
<tr>
<td><strong>No Change/Can’t think of anything</strong></td>
<td>6 (11%)</td>
<td>11 (22%)</td>
</tr>
<tr>
<td>No answer</td>
<td>2 (4%)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>8 (15%)</td>
<td>7 (14%)</td>
</tr>
</tbody>
</table>

1 One of the Hungarian responses coded here read “the period of owner-changes.” Since privatization was not the only process of owner-changes in Hungary and was widely accompanied by the buy-outs of companies from cooperative ownership, it is not clear which process the respondent meant. The answer was coded in this category, because the emphasis here is on the shift of ownership from “old” owners to “new” and not on how it was done.

2 The government of Péter Medgyessy in the case of Hungary and the government of Vladimir Putin in the Russian case. Answers that were coded in this category either clearly indicated that the respondent was talking about the current national government (e.g. saying “Putin” or “current government”) or indirectly referred to the policies of the current government by linking the changes to the years after the current government came to power.

3 Some of the answers that were included in this category associated joining the European Union with 2004 – the year when the country was to vote on the issue; some of the answers, though, when talking about the EU membership associated it with the years after the current national government took office.

4 These two answers were obtained by mail; the respondents refused to answer the questions of part III of the survey even when they were subsequently called on the phone.

5 This category included events that were only mentioned once, for example: 88 – new tax system; government’s donation in 1995-1996 to our industry as a result of which a lot of our competitors were established; new laws; rise of oil prices in 2001.
Hungary in Russia was the putsch of 1991 – the event, a few months after which the Soviet Union was dismantled and the one-party system was replaced by a multi-party system. Still, only 8 (16%) of all Russian respondents saw it as something that had had an important influence on their business environment (Table 5). The crisis of 1998 – or as most of the respondents called it “the default” – appears to be by far the most important event for Russian businesses (23 companies or 45% of all Russian respondents mentioned it, Table 5).

**Change of the Regime**

Not surprisingly, the majority of the Hungarian respondents that indicated the change of the regime as an important event in their business lives, thought that it had a significant influence (answers 5, 6, and 7 on a seven-point index) on their local business environment (89% of the 27 respondents), their jobs (89%), the skills that are required to perform their jobs (82%), and on the relationship between government and businesses (85%) (Figure 1).

In the respondents’ explanations about how the change of the regime influenced their business environment the positive responses were predominantly related to the fact that the market became more open, people were provided an opportunity to establish their own business, and there is more professional freedom in general:

We gained many more and bigger possibilities after the change; the market opened significantly (earlier only the state companies could deliver to foreign countries). The possibilities for businesses have grown to a great extent.

I think that the changes were positive because I could start my own business, my own Ltd. There are many in my business environment who have the same opinion.
The establishment of private company forms, because as a manager I was allowed
to form a part of activities of the company according to my own ideas.

Figure 1. Influence of the Change of the Regime on Business Environment, Manager’s job,
Managerial Skills, and the Relationship between Government and Businesses as Reported by the
Hungarian Managers.

* The total is 26 answers, because in both cases one of the respondents (different respondent in each case) did not know
what answer to give. Also, even though the distributions of the answers for these two questions look exactly alike, the
distributions of companies across the answers are different, though primarily for answers 4, 5, and 6.

Some respondents, along with acknowledging the new possibilities that were
opened up before people, voiced their dissatisfaction with the growing involvement of
politics in economic and business life as a result of the change:

The change of the regime opened new possibilities in people’s life. Since then
with every new government some certain reorganization can be felt, which is very
unfortunate. The ‘direction of the wind’ constantly changes, which influences
companies as well. There is no stable financial background... Government
changes do not have that great of an effect, but the respectability of a company depends on whether it goes with or against the “wind”. [Interviewer: if the company has good connections with a certain party and that party is in the government, the company will be supported.]

There were positive and negative changes as well. Positive is that the people got the opportunity to try their own luck in the market; in other words, to have and control their own business. Negative ones have been mentioned - the economy became more controlled by politics and laws are constantly changing.

Some negative feelings were also associated with the way the transition process went:

Many of the state companies ceased to exist or were given to private individuals. Along with these a huge chaos emerged in the business life. The whole change proceeded in a very unorganized way; the open-eyed (watchful) people or the ones who were in the right place at the right time came out with huge profits from it, while others, who may even have had better managerial skills, vanished in the sink.

The markets were cut off in the political life; the economic connections were also broken. Many of the companies became bankrupt, especially in this industry. Many were affected negatively by these changes. Everything had to be rebuilt from the beginning. The changes should have been executed more cautiously. Till then [before the change] we produced and transported our own products, even to eastern European markets. After we could only do wage-work.

I can’t explain this properly, but everybody tried to evade the laws of that time, and searched for gaps in the regulations. Then using these gaps people could do anything, even if they weren’t competent in doing it.

For me the era before the change of the regime was better; there was order and normal competition on the market. Now it is a bit of a chaos, faster and definitely finance-centered (before, it was strict, but just).

Even though some respondents also mentioned the loss of customers and orders, the strengthening of the competition, and the turbulent times of the transition process before the new system got established, as consequences of the regime change, they did not necessarily perceive them as negative:
The whole continuum happened (the few years of "wild-capitalism" after the change of the regime), but the market conditions are safer nowadays; the economy and market are more calculable. There are plenty of competitors, plenty of similar products. It is getting more and more difficult to convince the customer that our work is the best.

Unfortunately, in terms of the impact of the regime change on their professional life, a large number of respondents misinterpreted the question (question 23.1 “Please specify the effects of each change on the job of a manager like you”) to mean the influence on the life of a manager and not on the job of a manager, or thought of it in terms of skills required to perform the job of a manager. The latter responses are analyzed below along with the analysis of the questions on managerial skills. The former group included answers like “They all [other managers] tried to change to adapt to the new situation; those who didn't succeed in their old work places, started a new business;” or “These changes didn’t occur at once. The good experts and professionals had a chance to establish themselves in a job, and that is also the case at present;” or that it was important to be close to the people in power to keep your workplace and that the skills did not really matter; that those managers that went to work for the multinational corporations were luckier than the others; that at the beginning of the transition process those people that could take advantage of other people came out as winners, whereas, at present, connections – knowing the right people - are more important; that the system of interests, i.e., motives for doing things, of those in power in companies or in government changed.

Of the respondents that gave suitable answers some indicated that the regime change gave them more freedom in organizing their work and time, more responsibility, and a more active part in the decision-making process. Constantly changing laws, lots of taxes, and lack of reliability and predictability in business life have surfaced on the
negative side of the process. One respondent said that the tasks of the job have been broadened and that the manager now has to work harder taking more risks and striving to achieve better results. Another respondent noticed that the manager today has to continually educate himself/herself, build up a wider range of connections, devote more time to work, and, overall, be mentally fit for the job.

Interestingly enough, 10 (37%) of the twenty seven respondents believed that the skills that were required to perform the job of a manager before the change of the regime were not much different from the skills that are currently required:

They [qualities and abilities] were roughly the same. Maybe the eminence and the self-assurance counted more than other qualities. The leading candidates had to go through a lot of filter. [Interviewer: they had to be "checked" by the government and the party before they could become managers.] (Answer 2 on a seven-point index)

Market economy had already been established in the 1970s, so the same characteristics were enough to make a living. (Answer 5 on a seven-point index)

When I started to work, connection and loyalty to the party was not significant. I began to work in 1986, in my opinion, in that environment, the same requirements existed. The same abilities were necessary as now. (Answer 7 on a seven-point index)

Roughly the same. The connections existed too at that time [the ability to find and establish business connections]. The reliability [between business partners] was also very important. (Answer 7 on a seven-point index)

Eight of these ten respondents, however, marked answers 5 to 7 on a seven-point index for the question that asked them to what extent they thought the regime change affected the skills required to perform the job of a manager (Figure 1). In other words, there seems to be a discrepancy – on one hand, the respondents think that the skills were practically the same, on the other hand, they indicate that the regime change had a significant influence on the skills required to perform the job of a manager. For some of
them the discrepancy can probably be attributed to those minor differences that the respondents did mention, thus, thinking of them as something that had a big influence:

“The same abilities were needed, but in another way. The politics played a bigger role at that time” (answer 5 on a seven-point index); “Theoretically the same ones were needed. Probably the relations with workers changed” (answer 6 on a seven-point index); “All of the things mentioned before [the skills currently required] except the ability of taking risks. And of course the blessed abilities of ‘imp backbone’ and a ‘long tongue’” (answer 6 on a seven-point index); “They were almost the same. And you had to be adapted to the party, too [you had to meet the party’s requirements]. The workers weren’t known as much by their managers” (answer 6 on a seven-point index); “Business contacts had a stronger function, but suitability and professional competence were also required” (answer 7 on a seven-point index).

Fourteen (52%) of the twenty seven respondents believed that before the change of the regime different skills were required, although only 6 of these fourteen were absolute in their opinions (and as we can see there is no discrepancy in their answers):

To get a position no skill was needed; you were appointed to do the job. Dictatorship was an accepted management form. (Answer 4 on a seven-point index)

The most important thing was loyalty to the party. Although I wasn’t a manager at that time, but I assume, things went on in a different way. The workers meant a faceless crowd, who seldom or even never met with their managers in person. (Answer 6 on a seven-point index)

During the socialist regime, it was necessary to be loyal to the party and have a connection with the party. That didn't concern me, though. (Answer 7 on a seven-point index)

Before the Transformation [the change of the regime] everything was simpler. The party, the state “took care” of everybody. That was an entirely different
world, one cannot compare the two. But livelihood was better than nowadays. (Answer 7 on a seven-point index)

Totally different. I was a department manager in milk industry, so a subordinate. I was always told what to do but one thing is certain, I needed endurance every day [this is one of the skills that the respondent said is necessary today]. (Answer 7 on a seven-point index)

The other 8 respondents maintained that some of today’s skills were still present then, but they were either secondary or not as important:

Before the change good professional knowledge was enough to do this job. Everything became a bit more complicated. (Answer 4 on a seven-point index)

The professionalism wasn’t as important as it is nowadays; rather the loyal attitude towards the regime was dominant. (Answer 5 on a seven-point index)

Before the change of the regime, one needed the right political background, fame, needed to come from a working class family; reliability was the most important criteria: no matter what idiocy the party said, one had to agree. Those qualities that are needed today were secondary. (Answer 5 on a seven-point index)

There was controlled economy. That meant handed tasks with independence cut down. (Answer 6 on a seven-point index)

Not much of the current ones while we were subordinates with no responsibility for decisions, but a good sense of business was still important. (Answer 6 on a seven-point index)

Competence and professional knowledge were important, too, but political loyalty was much more important than today. (Answer 6 on a seven-point index)

Primarily professional knowledge was required. (Answer 7 on a seven-point index)

Importantly, respondents from both groups – the ones that thought that the change of the regime did not bring any changes to the skills required to perform the job of a manager and the ones that thought otherwise – identified loyalty to the party or the greater importance of politics in the job of a manager as a characteristic of the previous era, but apparently had a different perception of just how much it weighed on the
manager. Obviously, the managers that believed that there was a great change in the skills
gave it a lot of weight, whereas the others understood it as something secondary that just
was there. The two groups of managers were quite heterogeneous with no special features
that would set them apart from each other.

In the answers cited above four respondents talked about professionalism, but two
stressed that professionalism as a skill was only secondary and that party membership
was the primary criterion for success, whereas the other two indicated professionalism as
the only thing that was required or needed to do the job of a manager. Interestingly
enough, this was a homogeneous group - three of these respondents were between the
ages of 45 and 55 that established their own company after 1989 (the other respondent
was between the ages of 35 and 45 working for a state-owned company that is about to be
privatized). In other words, there is no dramatic difference in the respondents’
background. The difference in the answers could probably be attributed to the difference
in what element each respondent chose to stress.

Three main themes emerge from the answers about the influence of the regime
change on the relationship between government and businesses, two of which are
contradictory. The first one is that the government has less influence on the economy
now than it used to - seven respondents noticed this trend: “It [the government] doesn’t
weight itself that much on the economy, as in the socialist era;” “Earlier the politics had a
significant effect on the economy, now the economy has effect on politics. The work and
activity of the government is determined by economic processes;” “In the long run it
depends on the governmental decision. The economy is forming itself yet, but it still
needs directions. One thing is sure the government is not the determining factor
considering the changes;” “After the change of the regime, the connection between the
government and the economy became two-directional - the economy is no longer
controlled from above in terms of when and what should be done. The government has to
take the efficiency of the economy in consideration, because it (the government) depends
on it. So laws and regulations are enacted to help the economy and companies.
Sometimes this mechanism works, but sometimes it doesn't;” “After the change of the
regime ...political and economic empires separated.... We are moving towards such state
of affairs, in which only economic and market laws rule. I, personally avoid fields where
policy takes part. Of course, I do this as far as I can;” “The government can distract,
delay, and affect the economy with its wrong decisions, but basically the firms and
companies make the decisions - their own market policy is the principal one [the firms
are in control; the government is not really important], they ‘handle the reins.’ The words
of the big, multinational companies have a great importance in Hungary.”

The second theme is that the government and economy are more interconnected
now and that the politics are more involved in the economy now than before – 3
respondents voiced this as a concern and one respondent’s answer was more neutral:

The politics and the economy came closer to each other. The government
provides information to companies and offers plans and tenders to them. The
political decisions have influence on the economy (for example, the protective
duty), but these decisions are not always helping private companies; often they
seek their own interests.

The inter-penetration of the government and the economy can completely
unequivocally determine the fate of the country. Those who work themselves to
death, can hardly survive, while those, who affect decisions and laws and are in
control, prosper.

The politics has too big of an influence on the economy. This can be felt with
every change of the government - they are always changing, but the people can’t
feel its positive effects, because four years is not enough for a government program to work out and for its positive effects to be seen.

Nowadays you have to be aware of the political economics more often (daily). You always have to be aware of the possible tenders, competitions. You have to follow the economic rules and regulations as well. These possibilities – to have choices for tenders – are positive, but the government gives as burdens as well - changing laws and the unlimited taxes have a bad effect on our economy.

The third theme that surfaced from the answers of the Hungarian respondents is the concern that the last respondent voiced as well - ever-changing laws and numerous taxes:

Before the change of the regime we had central control and plans for 5 years. Economy was easier to calculate, but it was an absent economy. The products could be sold better, because there were not many competitors. The laws were more abiding than now. Nowadays they change laws every 2-3 months, which deeply affects the economy, and there are always new taxes.

Politics is very negative. Politicians make ill use of their opportunities. In Hungary [after the change of the regime] politicians produced plenty of laws every year, and every other year they amended them. It was terribly difficult to accommodate to them. We couldn’t plan for the future. [With the EU membership] we had to take over the system of the Western market economy. This was the harmonization of laws, which was a good solution for the company. In my opinion, after we join the EU we will be in a better position. Although the new rules are strict, they will last longer, than the Hungarian ones. Because of it, planning will be more calculable...They [the government] introduce new taxes, which increase our cost.

The financial withdrawals (social insurance, health and education taxes, energy taxes, etc.) by the government has become too much, so we don’t have enough money for development. All loads are weighted on companies. Firms with strong capital (funds) can compensate these somehow, but the weak ones can’t. So the strong ones can use this to their advantage squeezing their competitors off the market by offering low prices. The small and weak companies can do nothing, but “punish” their workers with restrictions to stay alive on the market. And this is a very bad tendency.

We have talked about these. The government expenses are constantly growing; the government tries to compensate by increasing taxes, and that hinders industrial development.
In summary, predominantly, the positive feelings regarding the regime change were associated with the factors that were predicted to happen after the communist regime collapsed – more open economy, more opportunities, and more freedom. The negative feelings were mainly targeted at high taxes, constantly changing laws, and the role and decisions of the government.

**Putsch of 1991**

To compare, let us now look at the influence that the putsch of 1991 had on the Russian respondents’ business environment, their work, and the relationship between government and businesses.

Seven of the eight respondents thought that the putsch of 1991 had quite a significant effect on their business environment and the job of a manager – they marked answers 5, 6 or 7 on a seven-point index (Figure 2). Surprisingly, five of them did not think that the putsch had any effect whatsoever on the skills required to perform the job of a manager and on the relationship between the government and businesses (they gave an answer of 1 on a seven-point index) with the remaining three being not sure whether the effect was significant or not (answers 4 on a seven-points index) (Figure 2).

Those respondents who said that the putsch of 1991 had had a significant influence on their business environment, could only either point at the rise in the number of private companies and, thus, in competition, as its consequence, or at the fact that they themselves got a chance to establish a company or change to private ownership: “Our

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6 One of these respondents said that the influence was very small, but marked 1 – no influence, for the answer.
company became private; it was difficult in the beginning - state orders and financing stopped, so we had to take care of everything ourselves;” “A lot of private companies appeared - they've become our competition;” “It got more difficult to work after the putsch: more competitors - private companies came into existence;” “A lot of small private companies appeared that became our competition (they are smaller, it's easier for them);” “A lot of private companies rose that time, but it got more difficult for government owned companies;” “Both changes [the putsch of 1991 and the default of 1998] have formed the existent business environment - black market entrepreneurs have come out and established (most of today directors are former black market

**Figure 2.** Influence of the Putsch of 1991 on Business Environment, Manager’s job, Managerial Skills, and the Relationship between Government and Businesses.
Moreover, the responses to the question regarding the influence of the putsch on the job of a manager were either limited to “we have to compete with out competitors now” (2 answers) or “the same influence [as on the business environment]” (3 answers) or “can’t tell,” “positively,” and “life has gotten easier.”

The responses are even scarcer in regards to the influence of the putsch on managerial skills. Only one respondent, the one that gave an answer of 5 on a seven-point index, noticed a difference: “You had to participate in "social events" - exhibits, shows, etc. Those who showed that they were better than the others were better financed by the government.” The rest believed that the same qualities that are needed to manage today were needed before as well.

In regards to the influence of the putsch on the relationship between government and businesses, one of those respondents that marked an answer of 4 could not explain why, and the other two had noticed the following differences – “Private entrepreneurs became independent, which gave people a chance to develop and live according to the principle of natural selection” and “State financing ended”, but, apparently, did not think that they were very significant. Here is how one of the “no change what’s so ever” respondents explained his answer:

These things are always interconnected (the two are almost the same thing) - on one hand everything has always been under government's control and nothing has changed; on the other hand most of government officials now are involved in businesses, which means the same people run the government and businesses.

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7 The respondent that gave an answer of 4 was not completely sure if the qualities have changed or not “Don't know, probably the same [qualities].”
Furthermore, one of the respondents that talked about Perestroika as a significant event gave very similar answers: the main influence on their business environment and the manager’s work was that they were privatized – “before, we were owned by the state - we didn’t worry what the next day was going to bring; it's different now, but we are used to it by now;” the influence on the managerial skills was not clear - the respondent gave an answer of 4 and commented that now you need experience, whereas before you needed to be diplomatic; and no change was observed in the relationship between government and businesses: ”No influence - the relationship hasn't gotten worse or better; it just changed - the government stopped financing and ordering, but that's it.”

In other words, what we see in all these responses is that the changes did happen at the institutional level (e.g. more private companies were established, state financing stopped), but not much influence was felt on the substance of business life or manager’s job or managerial skills or the relationship between government and businesses.

*Crisis of 1998 (a.k.a. the Default)*

According to the respondents’ evaluation on a seven-point index, the crisis of 1998 had from a moderate to significant effect on their business environment (26% gave answers 6 or 7 on a seven-point index; 30% gave an answer of 5; and 35% gave an answer of 4), a strong effect on the job of a manager (39% of the respondents gave answers 6 or 7; 22% gave an answer of 5, and the same 35% again gave an answer of 4), no or very little influence on the skills required to perform the job of a manager (52%)

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8 The other respondent mentioned the default of 1998 along with Perestroika and focused only on the effects of the default on their business environment, the job of a manager, and the relationship between the government and businesses.
gave answers 1 to 3 and 39% gave an answer of 4), and more or less no influence on the relationship between government and businesses (the majority of the respondents – 65% - gave answers 1 or 2) (Figure 3).

Some (9 or 39%) of the twenty three respondents that thought that the crisis of 1998 was an important factor did not think that it had any influence on their company perse: “I can mention the crisis of 1998, although it didn't have any influence on us.” Seven of these nine respondents gave answers 4 or 5 to the influence of the crisis on their business environment and the job of a manager, but they could not explain why – they thought that it must have had some influence on some businesses, but did not know what

**Figure 3.** Influence of the Crisis of 1998 on Business Environment, Manager’s job, Managerial Skills, and the Relationship between Government and Businesses as Reported by the Russian Managers.
kind since it did not influence them. The other two respondents gave an answer of 6. One of them explained that the overall situation in the country was difficult and he was assuming that a lot of directors got fired as a result of it. The other one said that instability is always bad on production and you simply do not know what to expect from tomorrow.

Seven other respondents reported that the default had good influence on them. Two explained it by the fact that the poorer the people get, the more of their product they buy, because what they produce becomes the daily staple. The others said that as the price of the dollar goes up, the local product becomes cheaper and, thus, more competitive and, as a result, sells better:

The default overall had a good influence. The company produces mainly from local materials; imported materials constitute only a small percentage of the production, so we did not feel the negative consequences of the default. Overall we benefited price-wise.

The default helped manufacturing; even if we personally suffered, the supply of products on other markets rose. Because the dollar went up, the volume of imported parts brought into the country went down and these were replaced with their Russian counterparts.

For a local producer, the higher the value of the dollar, the more competitive he/she is. Right now lots of producers are suffering because of the imported products. For me the default was good. If the value of the dollar goes up twice now - it will be even better.

Only three respondents indicated more of a negative effect of the crisis, although one of them still said that their company had been on the rise ever since: ”Sales have gone down; lots of companies folded (because of the default); instability; new laws; new prices;” “After the default the competition rose in all branches of business. One of our companies was formed in 1999 during the time when a lot of companies were being
formed. So, we’ve been on the rise since 1999. Also, I can mention that in the last few years competition has gotten stronger.”

Of the rest, some respondents could not specify the influence and some focused on the effects of other events that they had mentioned along with the default.

The answers regarding the influence of the default on the job of the respondents are very sporadic; it is hard to distinguish any trends. The main theme that dominated the available answers was that it is always in the hands of the manager whether his/her company does well or not, and so if some companies suffered it was their managers’ fault: “All those companies that folded after the default - their directors were not professional;” “I believe that changes like these should not affect directors that are ‘standing strong on their feet;’” “90% of business success is management;” “Everything depends on the director. There was no direct influence of the default on my job, but since it influenced our production it must have indirectly influenced my job as well.... although, everything depends on the director.”

Of the respondents who gave an answer of 4 to the question regarding the influence of the crisis on the skills required to perform the job of a manager, three could not explain the change, four said that the same qualities were needed as now, and only two pointed at certain differences: ”Now you have to understand the situation on the market and respond to it quicker, it used to be less hectic” and “You didn't have to have any skills before.” One of the respondents that gave an answer of 5 indicated that before the crisis the manager had to be “diplomatic - saying the right things at the right time,”

9 Overall a larger number of the respondents understood question 23.1 - the influence of the changes on the job of a manager – as the question about other managers and companies and question 22.1 – the influence of the changes on their business environment, as about their company; thus, there are a large
while the other manager pointed that the manager had to be resourceful and constantly in
search – “... search for yourself, for new markets to sell, just search in general;” both did
not think that these qualities are needed now. Interestingly enough, one of the managers
(who gave an answer of 1) voiced an opinion that the qualities that are needed to perform
the job of a manager are the same at all times.

Finally, there seems to have been a very minimal influence of the crisis of 1998
on the relationship between government and businesses. There was no prior expectation
on my part as to whether the default would have had such an influence or not, because I
assumed that it could have gone either way depending on other numerous factors of the
time. According to some of the respondents (who actually explained their 1 and 2
answers) it did not have an influence on the relationship between government and
businesses, because “everything is under government’s control as it used to be” (2
respondents) or “these things (government and business) are always interconnected” (2
respondents). The answers 4 on a seven-point index as usual were the ones that could not
explain what kind of an influence the event had. Two of the respondents that gave an
answer of 7 both mentioned the same effect – the loss of trust in the government: “We
(businesspeople) don’t trust the government now - we can only rely on ourselves. “

Overall, the majority of the Russian managers mentioned the default in their
answers just as something that must have had some influence on other companies and
managers, but not as an event that had affected their company per se or them personally.
Privatization and Establishment of Private Ownership

As one would assume the establishment of private ownership and privatization would have been viewed if not the major but certainly as one of the major events in the transition process of the former command economies and, thus, should have been identified as such by the respondents. In fact, some of the respondents did mention privatization, but not as many as one would expect - 5 or 9% of the Hungarian companies and 4 or 8% of the Russian companies (Table 5).

As was mentioned earlier, whereas the privatization process was a major element of restructuring for a large percentage of the Russian respondents (32 or 63% of them have been privatized), the majority of the Hungarian respondent companies were either established anew or bought out from cooperative ownership (44 or 81%). This explains, then, why two other Hungarian companies identified the establishment of private companies as one of the major events, and not privatization, and why quite a few of other Hungarian respondents saw establishment of private companies in general or establishment of their company in particular as one of the main results of the regime change: “The change of the regime made it possible to establish private companies;” “The changing regime changed economics as well. I did the same job, led a governmental plant. After the change I had to start my own business to survive. That changed my life 100%.”¹⁰ In the analysis of the influence of the putsch of 1991, the few Russian respondents that identified the rise in the number of private companies as its result saw it

¹⁰ Note how this respondent says that he had to start his own business to survive. There were a number of other Hungarian respondents that expressed their situation in the same words: “Till 2000 I had worked for a state company. It moved and I was forced to start my business;” “My workplace closed in the 1990s and I had to establish my own company.” These respondents are a perfect example of the free-market mentality in working – instead of complaining and hoping that the government would do something, they took charge of their situation.
in terms of increase in the competition. In other words, the Hungarian respondents perceived the loosening up of the ownership regulations as a good development – a chance for people to manage their own business, whereas the Russian respondents thought of it as more of a threat to them in terms of rising competition.

All nine respondents thought that privatization had a significant influence on their business environment and on the job of a manager – with the exception of one Russian company that gave an answer of 4, all of them gave an answer of 5 or higher to the influence of the privatization on their company’s business environment and their jobs (Figure 4). Only one Russian respondent (the one that marked 4 on a seven-point index) gave a straight ‘bad influence’ answer: “Negatively - before, factories were leading companies in Russia, now, no one cares about them.” The rest of the Russian respondents just pointed out that companies had to start working in a different, market-oriented, environment seeking orders on their own without the assistance of the government: “It made the director work;” “During any changes the director gets some extreme experience that changes his/her qualifications/skills, changes his motivation and his outlook on things.”

Negative notes were present in the responses of four of the five Hungarian managers, but their complaints were not really directed against the privatization per se, but rather against the policies and choices of the government since then:

There was a pillage and privatization in 1989 (write it down safely). The profit of the company has been decreasing year by year since its establishment. If the situation remains, it’ll get to a near-breakdown state, thanks to the policy. It completely destroys the domestic entrepreneur.
Table 4. Influence of Privatization on Business Environment, Manager’s job, Managerial Skills, and the Relationship between Government and Businesses.
The conditions became stricter, taxes increased, the competition strengthened. A total planlessness rules; it can be seen at the taxation of the tobacco (the regulations change almost every week). At the same time, products of the black-market flow in the market. In one word, the government slows down the development of this branch of business. The frequent changes of the regulations should be decreased in order to increase the efficiency of the manager’s decisions (and these decreases are already promised). Besides this the inflation is also present, and the union standards have become a referential basis. I personally think that certain people don’t do their job properly. For example: the income-tax of the tobacco goods is 5% in western countries, while it is 25% here, in Hungary, since the government wants to get as much income as they can from this industry. These circumstances can all hinder the manager’s activities (not to mention the changes in regulations every four years with the change of the cabinet).

The changes in the requirements in managerial skills that these Hungarian managers identified are very similar to what has been shown earlier: one respondent said that the same skills were needed as now; one stressed the importance of party membership and family connections before in addition to the same skills that are required now; one said that organizing and leading abilities and professional knowledge were enough then, but not now; finally, one manager said that he has all the skills that were needed before, but they are not enough today – “[now] I should be a sorcerer or a wizard.”

One of the Russian respondents did not perceive any changes in the skills requirements. The other three, in constrast, identified very clear differences between the two periods: before one simply had to be able to control the production process, be diligent (do well what he/she is told to do), and have good memory and good communications skills, but today, you need to be educated, work hard in general, and work hard to attract orders and keep regular clients in particular, be responsible, and goal-oriented. In other words, the change in the skills and qualities that these three respondents identified corresponded to the change in the ownership and economic relations – in a
planned economy under state ownership the manager’s job was limited to executing state orders and supervising the production process; in a market economy under private ownership the manager is on his/her own and has to seek his/her own customers and work hard to achieve his/her company’s goals.

Finally, in identifying the changes in the relationship between the government and businesses, two of the Hungarian respondents sounded very disappointed with the results:

Big multinational companies came, free of taxes, supported by the government... And our taxes and all other kinds of payments are high. (Answer 7 on a seven-point index.)

I don’t think that the government cares about these questions. If it were aware of the affects of these, it wouldn’t do what it does. I’ll give you an example. An environmental charge (tax) was introduced. To fulfill this, a man from a company in Debrecen worked for 6 days to figure out how much his company would have to pay and he counted 11 Ft\(^1\) of the tax! Now, where is the proportion between 11 Ft of tax and someone’s six day of work? So, this is the economic policy in Hungary. (This is the respondent that could not give an answer on a seven-point index.)

One respondent said, similar to some answers discussed before, that politics used to be an important factor in controlling the economy, but it is no longer the case, and that companies have more possibilities now, but their life is more difficult, because they have to work in the market environment.

The answers of the Russian respondents regarding the relationship between government and businesses are similar to the answers discussed in the analysis of the influence of the putsch of 1991: two of the respondents said that there had not been any changes (answers 1), one respondent indicated that “it’s gotten more obvious that the majority of the economy and businesses are controlled by government officials” (answer

\[^{11}\$1\ is\ approximately\ 200\ Forints.\]
6), and the last one just said that the property got redistributed from the government to businesses (answer 7).

*Change of Cabinet, Elections, Current National Government.*

Another interesting result of the survey is the respondents’ perception of the influence of the government and its regular changes on their company’s life. Both countries have democratic political systems in which the government gets reelected every 4 years. The few respondents from the two countries that indicated the influence of that process on their business environment used different expressions to describe it. The three Russian companies indicated the influence of elections on their business environment, whereas for the Hungarian managers it is the “change of cabinet” or the “change of government” that affects them (Table 5).

These responses reflect the differences in the political processes in the two countries. In Hungary every election since 1989 has brought a different prime-minister and a different cabinet in and, thus, different policies. The Russian respondents, in contrast, have not seen much of a policy change after each election, because in their political system the president is the main actor and the two presidents that they have had since the Soviet Union collapsed – Boris Yelcin and Vladimir Putin – have shared political views. This becomes clear from the analysis of the answers as well. The Russian companies that talked about the influence of elections complained that they slow down their professional life because “everyone gets involved” in them. In the Hungarian case every election or the change of government slows down business life because people do not know what to expect. According to the Hungarian respondents every new government
brings new regulations, which makes the business environment very unstable and puts companies in the situation of dependency on the government:

First, there is uncertainty when the new government comes in; then the laws and rules become more or less constant and we know where to move; 3 years go by and another government comes in with new changes and new ideas and brings uncertainty again. This is an everlasting circle.

Everything depends on the government. If one cabinet starts something, the next one will represent its direct opposite. There is no consistency and it affects the economy very heavily. We are independent from the government, but our customers have to take loans, because they lack sufficient funds; and that depends on the banks and, of course, on the government. So, the government has an effect on business/economic relations, and, thus, by implication, on us (and, thus, we also depend on the cabinet in an indirect way).

Laws and orders issued by the leaders of the government in power generally have a harmful influence on the work of the company (every new government has new orders). There is a remarkable extent of corruption in Hungary.

One respondent even termed every change of government a change of the regime:

The change of regime was not only in 1989, but in 1994, 1998, and 2002. In 1989 we met a change of the regime, which brought many inventions, things I hadn’t known. Then at the next change of the regime (1994) the mistakes of the previous one tuned out, or at least we thought that those were faults. Later we realized that many things were good.

Even more illustrative of this difference between the two countries is the case of the influence of the policies of the then current national government - a relatively larger number of Hungarian respondents (9 or 17%) attributed certain changes in their business life to the policies of Medgyessy’s government, whereas only 2 Russian respondents noticed some changes after Vladimir Putin came to power. One of the two Russian respondents did not elaborate much on how much influence Putin’s policies had had on his company’s life, but the other was quite positive about it:

It got more stable after Putin became president; before - don't know how to express it - it's not clear-cut …..before, for example, not everyone could get a
license to do our kind of business – there was less order when it came to it; now, there is more order, but a number of licenses have been cancelled by Mr. Greff - so, we have more competitors; although, I have to say, it is much more stable now.....It's safer to work now - our partners from other regions, for example, feel safe to transfer money to us now.\textsuperscript{12}

The majority of the Hungarian managers were dissatisfied with the work of Medgyessy’s government:

In the last two years: in the period of the new government people are more pessimistic. In the era of the previous government one believed that improvement was in turn, but the present one cannot make people feel it.

Nowadays in Hungary economic life is going downhill. It affects everyone’s life. Tax burdens and utility prices are mounting, these affect our average customer. It started about a year ago.

Globalization, bad economic policies, bad monetary policies - in the last two years, 2002-2004.

I don’t like our current socialist government. They help unfairly multinational companies; and the Forint is up-valued.

These feelings probably echoed the common mood in the country at the time, because in the Fall of 2004 Peter Medgyessy resigned from his post of Prime Minister.

\textit{Hungary and European Union}

Membership in the European Union overall received mostly unwelcome remarks from the Hungarian respondents:

Not concerned about the requirements of the Union membership, nobody can fulfill them; don’t even want to continue the business after the country becomes a Union member; the company will not survive after the country joins.

\textsuperscript{12} This is an interesting statement, because the work stories of my family members and friends suggest otherwise.
It would take a lot of time to specify these changes: joining means a very strong competition with foreign companies, who have a much better opportunity to survive, and who lure the customers to their side; they have bigger assets, more workers, better quality, and so on. The Hungarians try to improve and give better prices, but it might not be enough.... Everyone, or at least the majority of the nation has been waiting to join the EU, and has been hoping for a better living after it. But they didn’t consider the downside effects of this, and what we must give up for this. There won’t be a Paradise or something like that here, in Hungary, just because we are members of the EU. A few, or maybe a moderate amount of people and companies (close to certain government and state members) will really do prosper from it, but the rest of us will just face the negative sides.

A concern was voiced that the liberalization of trade, which is to come with the membership in the European Union, would only benefit the West European countries allowing them to use Hungary and other East European countries for their markets:

Everybody curses the government, democracy, the EU, multinational companies. Everyone has the opinion that they destroy domestic companies. The European Union needs us only for the market. I’m reading in the newspaper: they can hardly wait for May 1st. Germany, the Netherlands. I have recently read in the Observer [a weekly newspaper] that 46 thousand enterprises went bankrupt in Germany, and they hope there’ll be fewer this year because of the opening of the East-European market.

One respondent pointed that the country was poorly prepared for the day when the membership was to take effect:

I cannot talk about advantages. In Hungary the economic life is discursive. I feel uncertainty in both economic and money market; the performance of our politicians is outrageous. If you have to exist as a company in this economic and political situation, it is at least warning us to behave carefully. I cannot see a clear line of bearing in connection with our Union membership, if it would be good or bad. For example I buy machinery and tools from Germany. I called the board of customs to ask about my situation after May the 1st and they had no idea. And we have only one month left....Nothing is ready and we are far from it. I met the Union ambassador personally and he said that signs of improvement can only be seen at the level of manufacturers. Those who try to coordinate them failed totally. This is a terrible criticism.

Positive aspects of joining the European Union were seen in the establishment of a duty-free trade zone with Western Europe, in the hope that Hungary would eventually
catch up with the West European countries technologically, and that the Hungarian government would be compelled to become more efficient:

In the beginning, the first 1-5 years, I think, it will be difficult for us, because their technology is more advanced and we will have to re-learn a lot of things, but then, I hope, it will get better... Also, in the beginning, I think the government will try to slow down the process of changing the rules and regulations to match the European Union’s ones, because they will not want to give up their power. In other words, the economic development will probably be slowed down in the beginning. And, again, I hope that after a while the government will have to give up their power and the situation will improve.

**No Change**

A fairly large number of the Russian respondents could not think of any political or economic changes that had had an effect on their business environment or their work – 11 companies or 22% of all Russian respondents. Four of these companies simply could not point at any changes. Two other companies believed that they were too small to feel any changes: “It’s a small company; big changes do not affect them, just the local ones - taxes, etc. Now the taxes are lower and they are afraid they are going to start going up.

But other than that, nothing touches upon them. [interviewer]” Two respondents said that political and economic changes do not matter and that everything depends on the company:

Politics and economy do not influence us - everything depends on us. There seems to have been a sudden rise this year and I think it has to do with the fact that our people have more money and have become more selective.

Can't think of anything; everything depends on the company. We constantly live in a condition of change, we just can't pay attention to all of them; there is just no reason to do that.

Furthermore, one other respondent said that he has never been interested in these questions and he only cares about his own business; “everything depends on the manager
and profitability of the company.” Two respondents explained that their companies have always been stable, so they can not think of any changes that have influenced them:”Can't think of anything. I've always worked for this company and our company has always been stable (except for when we switched our production to a different product, but this was a change of the overall orientation of the company).”

In other words, none of the 11 Russian respondents even remotely mentioned perestroika, putsch, default, or any other changes that their country has gone through just in the last 15-20 years, as if none of them ever happened.

In contrast, some (2) of the Hungarian respondents that did not think there had been any change discussed the change of the regime in their answers:

There weren’t such periods. After the change of the regime everything remained in its place, as before. In those 50 years passed since the Second World War, we had at least 5 different periods, but always everything remained in its old form, only the leaders in power changed. Nowadays these periods make their changes every 4 years (elections). The power structure doesn’t change; it does not matter if the money is in the power seat or the politics is.

The only changes that these two attributed to the regime change were an increase in corruption and bringing the politics and economy closer together:

Corruption became much stronger; it has appeared everywhere, in the administration too. It has become more open and direct. The ethics became negative. The leaders can do anything....Previously politics and the economy weren’t in such strong symbiosis. Nowadays anybody can get to a leading position, while earlier usually competent people were in such positions. Politics have a great influence on the operation of the economy and the ruling power. For example, literacy is not among the conditions of electing someone to a mayor. The competition sphere has roughened, too. The economic efficiency decreased a lot....

The government and the economy are a bit more interwoven; the government tries to control the economy, but it was that way in the previous era too. Every government is after their own interests.
Both of these companies are in 100% private domestic ownership and have never been privatized. One was established in 1989 and the other – in 1997. One has 12 employees and the other has 23 employees and they belong to different industries. One of the respondents is a male between the ages of 45 to 55 with some management training and the other is a female between the ages of 35 and 45 with no management training whatsoever. In other words, we have two respondents coming from different backgrounds but voicing similar concerns.

The other Hungarian respondents simply said that politics is not important for them:

Politics is unimportant; we usually remain at the same level irregardless of the views of the governing party. For example: the Health Office, with which we have a contract, once lowered its support from 85% to 50%, so the cost of our product went up. The customers didn't really like it. They were so dissatisfied that after 2 months everything went back to normal, including the rate of support. Economically - the Chinese are bad for business in Budapest, but here they are not a threat.

There was no change for me at all. May be the 1989 license released by the new government. I have never had orders from the government. [After 1989 many people got license from the government, as a result of which more companies were established and the number of state orders decreased] There is nothing much to say. Politics is not my field and I am not really concerned.

I don’t care about politics, and I don’t follow its changes, just to the extent I need to do my business.

Political and economic changes do not have any effect on the business environment of a company like his. The only thing that affects us is the law that allows us to ask for the governmental donation – regulation 8/1983. This is our most important working factor. We have to live according to that....This law is constantly changing. If it is changed it happens at the beginning of the year. The last change happened in 2002. The company was founded in 1996, we have been doing what we do since January 2000. We are not affected by changing governments.
From the answers it can be seen that two of the above cited companies do some kind of work that is subsidized by the government, and, apparently, the belief that what they produce should be subsidized has been consistent throughout all the government changes.

**Conclusion**

The most surprising finding of this chapter is the minimum influence that political events seem to have had on the life of the Russian business people. Not only the majority of the Russian respondents could not point at any external obstacles to their work, none of them perceived the events of the late 1980s and the beginning of the 1990s as the change of the regime. Most of them did not even recall perestroika when asked about political events that influenced their business life. Chapter 8 attempts to understand and explain these and other findings of the survey.
CHAPTER 8
CONCLUSION: PAST AND PRESENT

In this chapter I conclude the analysis with an attempt to demonstrate a connection between the past and present of the two countries and understand the findings of the survey through the prism of the countries’ unique historical developments.

This chapter is divided into four sections. The first section summarizes the findings of the survey in terms of the two hypotheses presented in chapter 1. The next two sections analyze the survey results in light of the discussions presented in chapters 2, 3, and 4. The final section presents some concluding remarks.

Two Hypotheses

The first hypothesis, that Hungarian companies are more market oriented than Russian companies, can be accepted for the following reasons.

The majority of the Hungarian companies not only pay attention to their competitors, compare their own product to that of their competitors, and measure their customers’ satisfaction – the direct measures of market orientation, but a larger number of them think strategically and perceive some kind of a mission for their organization. The Russian companies for the most part split almost evenly on most of those questions with the less market-oriented group – companies that do not do any of those things, normally somewhat dominating (with the exception of the mission statements part, where these companies were in obvious majority). In sum, the organizational behavior of the majority of the Russian companies does not incorporate elements of an organization
operating in a market environment; and the organizational behavior of the majority of the Hungarian companies does. There was only one aspect where the difference between the two countries was less pronounced – organizational performance; the majority of the companies in both countries perform some kind of measurement of their organization’s performance.

One of the main initial concerns was that the over-representation of the food, beverages, and tobacco industry in the Russian sample would skew the results if the majority of the companies from that industry group displayed similar trends in behavior. As was shown in Chapter 6, quite a large number of companies from that industry group often did appear to be less market oriented: 1) the majority of them does not have a mission statement, does not develop a plan or strategy, does not evaluate their competitors, and does not measure their customers’ satisfaction; 2) the majority of them, although only by a small margin, does not set strategic goals and does not compare the quality of their product to that of their competitors; 3) all 8 Russian companies that do not measure their organization’s performance are from that industry group. At the same time they did not always represent an overwhelming majority of the less-market oriented companies. In other words, even if the over-representation of the food, beverages, and tobacco industry group did influence the results, the degree of influence could not have been significant enough to change the main conclusion of the analysis that Russian companies are less market-oriented than Hungarian companies.

The second hypothesis, that regardless of the political and economic developments in the two countries in the last two decades, the businesspeople in both countries will perceive no or little change in their business environment and their work as
a result of those events, only holds true for Russia but not for Hungary. It appears that economic and political events have had little or no influence on the life of the Russian companies and businesspeople, but have played an important part in the life of the Hungarian companies.

**Business Practices: An Overview of Major Trends**

A major feature of the Hungarian economy that is often overlooked by analysts is the presence of a wide variety and a large number of private undertakings during communist times. I myself did not give it much weight in preparing the questionnaire and, as a result, cannot draw definitive conclusions on some issues. One thing that the scattered evidence does demonstrate is that the private and semi-private sector did exist and must have been quite pervasive. Five of the forty-four private companies that have never been privatized and one of the two companies that did not answer the question on privatization were established before 1985, which means they existed in some kind of private or semi-private form before the regime change. I am aware of at least two other respondent companies that had been in cooperative ownership before they were established in 1991. These eight companies already make up fifteen percent of the responses, which, if projected onto the population on the whole, means that at least fifteen percent of manufacturing in the region had been in private or semi-private ownership. This, in turn, may have attributed to the fact that a larger number of Hungarian respondents exhibited market-oriented behavior than of Russian respondents.

Even though the proportion of Russian enterprises that display market-oriented behaviors is smaller than the proportion of Hungarian enterprises, the methods that the
former use in their work match those that Hungarian enterprises use or sometimes even appear more advanced. For example, consider the use of profit and profitability: a larger number of Russian respondents referred directly to profit or profitability as their measures of organizational performance. As was discussed in chapter 6, profit was not absent from the lexicon of the Soviet manager; it was superceded by the volume of production, but it nevertheless had to be fulfilled as well. Profitability was likewise one of the main plan targets, which received additional attention in the reform of 1965 and thereafter.

Such an old communist habit as setting company’s goals and measuring its performance in terms of production and volume figures appears in the responses of the Russian and Hungarian respondents in equal proportions. Most noticeably, of the six Hungarian enterprises that set their goals in terms of the volume of production, three used to be and one is still in state ownership. Of the fourteen Hungarian companies that use some kind of volume measure to evaluate their organization’s performance, eleven have never been in state ownership and one is unknown, but three of these eleven and the unknown one were established before 1985, which means they had been transformed into private ownership from cooperative or other kind of ownership. Of the six Hungarian companies that use the volume of sales to measure their organization’s performance, five have never been in state ownership, and only one of these five was established before 1990.

Of the four Russian companies that set their strategic goals in terms of production, two companies have never been in state ownership and the other two have. Of the twelve Russian companies that use some kind of volume measure to evaluate their organization’s
performance, nine used to be in state ownership. Of the eight Russian companies that use the volume of sales to evaluate their organization’s performance, six used to be in state ownership. In other words, the data suggest quite a strong correlation between former state ownership and the old style measures for Russia, which was expected. It may be suggesting a correlation between whether a company had existed before communism collapsed and the use of these measures for Hungary, but not very definite. This, in turn, could be a reflection of the country’s diverse economy and the presence of diverse business behaviors before the collapse, some examples of which were given in chapter 4.

Of the Hungarian respondents seventy percent either have more than four competitors or their market share is less than twenty percent. This compared to only thirty seven percent of the Russian respondents that have more than four competitors or whose market share is less than twenty percent. Competition was not a concern for sixteen percent of the Russian respondents. Another eighteen percent either do not measure their competition or do not have any in their region. This more or less monopolistic nature of the market in the Saratov region probably speaks of high barriers to market entry. In addition, the vastness of the Russian geography and its poorly developed infrastructure bounds local level businesses to their own regions, which means there is little threat of competition from outside of the region. Only large conglomerates formed on the basis of former state enterprises have resources to operate throughout the country.

The manager and company specific characteristics did not show any significant influence on the survey answers. The characteristics of the Russian respondents and enterprises demonstrated some patterns for certain answers more so than the
characteristics of the Hungarian respondents and enterprises, but still very insignificant. One exception was the Food, Beverages, and Tobacco industry group that persistently appeared less market oriented than the rest.

This industry group has a very unique position – it produces the necessities of life. As a result it prospers the most at times of crisis or when the majority of the population is poor. “The main reason for the increase in bread production [after 1998] is the declining buying capacity of the population, which makes bread one of the main affordable staples.”¹ In the responses these were producers of bread and related products (8 companies), milk (7 companies), meat (4 companies), alcohol (3 companies), and cooking oil and related products (2 companies).² As a few of our respondents put it – these companies have enough work as it is, so there is no need to worry about competition, strategies, and other things.

**Business Life, Politics, and Institutions**

When I was planning this study, my starting point was my own life experience with change, or rather the lack thereof, in Russia. I could clearly see that all the theories about market, transition, and economic transformations were as far removed from what was happening in my part of the country, as the old communist regime was from capitalism. I remember trying to explain to an American friend of mine how all these theories of supply and demand that they had started to teach in Russia did not apply to real life. It was difficult for my friend, an economist by training, to even comprehend that

these ‘laws’ of nature could not work. So, I embarked on my study to demonstrate just what I meant by showing that the communist past was not a simple mistake of fate, that each communist regime developed according to its country’s culture and historical development, and that the transition from it has not been such an overwhelming change as the Western media and scholarship portrayed it. I was trying, in other words, to demonstrate how ethnocentric and narrow approaches to understanding the process of transition had been in the West.

Little did I know that my ideas of ‘no change’ were just as ethnocentric and narrow. I had made the same mistake as the others – I based my understanding of the political and economic processes in other communist countries on my observations of what was happening in Russia. Putting forth an argument that each communist country had followed its unique path of development, I, nevertheless, failed to consider that the process of development and change for each country was as unique and different as the development itself. Seeing no substantive change in the life of Russia I assumed that Hungarians must not have seen any substantive change as well and have simply had more luck with the reforms, because of their previous historical development and culture.

The survey results demonstrated my narrow approach quite clearly. Not only have Hungarian businesspeople experienced a change of regime (or at least perceive to have experienced one), they see changes with every new government and all major policy initiatives. These have little or no effect on Russian businesses. The formal institutional environment of Hungarian business life is very much functional, as can be seen through its significant influence on the enterprises, whereas the influence of the Russian formal

\[2\text{Alcoholic beverages would constitute a basic necessity mainly for cultural reasons.}\]
institutional environment on businesses is practically absent, which had led me to believe in the first place that no change had happened at the institutional level. Let me elaborate on each point in greater detail.

What we have seen as a result of the survey is that Hungarian society reacted to the transition processes and political developments afterwards as was expected by its designers, and much more so than Russian society. The regime change in Hungary is associated with the creation of a more open economy, more freedom, more business opportunities, and a significant change in the enterprise business environment, the job of a manager, and the relationship between businesses and government. The governments of József Antall, Gyula Horn, Viktor Orbán, and Péter Medgyessy had brought in their own agendas and the people could feel the difference in the approaches of their different parties. These differences in party platforms constitute the core of a pluralist society, in which various political groups should represent diverse opinions and approaches. Membership in the European Union raises concerns about an increase in competition, stricter rules and regulations, but also brings hope that Hungary would catch up with the Western World in technology and the efficiency of the government.

In Russia, out of everything the country has gone through, only the crisis of 1998 seems to have left an imprint on the majority of the managers. Even in this case, though, most managers simply remembered the event and could not identify what kind of influence it may have had on their business environment and work. The majority of the respondents remembered neither Perestroika, nor the Putsch of August of 1991, when the old time communists tried to oust Michael Gorbachev and stop the processes that were leading towards the break up of the Soviet Union. The managers that did think that those
events were important perceived their influence only in the emergence of a greater number of small companies and, thus, their competition. No qualitative changes in their work, business environment, or relationship between government and businesses were recognized.

One explanation for these different perceptions of the political and economic events in the two countries does stand out from the historical analysis presented in previous chapters. The difference in the role of law and legitimacy between the two countries and the duality of the Russian mentality and life from the times of the tsar all throughout communism may provide a good insight as to why the Russian businesspeople did not perceive much change in their business lives as a result of major political events and the Hungarian businesspeople did.

The presence and the supremacy of the rule of law in Hungary have meant that laws and regulations have legitimacy and, thus, their intentions are carried out into real life. As a result we see real policy changes with every new government and new policy initiatives. Hence, the complaints of the Hungarian businesspeople about uncertainties that arise with every change of cabinet, changing laws as a result of it, and dissatisfaction with the policies of then current government.

The low legitimacy of the law in Russia leads to its inability to translate government’s goals into real actions. In Russia, official rules have never had very much presence in real life and the development of the society has always been determined by the development of informal, unofficial rules. Marina Kurkchiyan presents a model of the Soviet society based on the interrelation of these two realms – official and unofficial, in which the official realm was simply a formality that was easy to satisfy with very
minimum effort.³ The duality of life was universal for every citizen regardless of position. “It was not a matter of ‘officials’ applying the laws and procedures while ordinary people fought against them; everyone was involved, including officials.”⁴ To illustrate how insignificant the position of the formal realm was Kurkchiyan refers to a Bulgarian aphorism – “It is like a door in the middle of an open field. Only a fool would use the door.”⁵

Kurkchiyan determines that this duality of life has not changed since the communist regime collapsed. A response that the author received from one of her interviewees in Ukraine to the question ‘why does not the law work?’ is what the Russian respondents in the survey presented in this work were indirectly saying through their inability to identify any official changes that had influenced their work – “Who says that it does not work? It might work, but who cares about it enough to try it?”⁶ The result – the official realm, which the questions in the current study were concerned with, have had as much effect on the business life as that door in the field would have if one tried to use it to keep people from crossing the field.

An example of a court case provided by Kurkchiyan illustrates this logic in action. Some time in the 1990s, Armenian Airlines was taken to court by a private news agency.⁷

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⁴ Ibid., 37.


⁷ Ibid., 33.
The agency had a contract with the airline that was breached by the airline when the new management came and decided that they no longer wanted the services of the agency. The contract presumed a provision of certain services by the agency in exchange for a monthly payment from the airline. The agency took the airline to court after it had accumulated a substantial debt and the court ordered the airline to pay the agency its debts, thus, abide by the terms of the contract.

To an outside observer not familiar with the politics behind the case, the case is very simple – the court acted in a professional manner and in accordance with the law. The two sides involved, though, did not think that the decision of the court had anything to do with the law. The representative of the news agency was convinced that the agency had won the case only because the government was planning to privatize the airline and, thus, was deliberately weakening the airline so that it could be cheaply sold to a member of the ruling elite. Otherwise, the state would have intervened and helped the airline win. The lawyer for the airline believed that they had lost the case, because the judge was afraid that an alternative decision would have caused an outbreak of criticism in the media and a conflict with the media overall.

This case could just as well have happened in Russia. It provides a good metaphor for the working of Russian society – everything, even a court decision, has a dual meaning. Even in times when the law is obviously being observed, as in the previous case, people do not accept it at its face value and look for hidden reasons. This, in turn, pre-disposes people to act in such a way that official rules and regulations lose their meaning – they are not believed to make a difference and, thus, are disregarded.
The changing perception of social time in the life of Russian managers may have contributed to the low perception of the importance of major political events as well. Social time refers to a group’s perception of when social events occur and it identifies a social phenomenon in its relation to a different social phenomenon that is used as a starting point. Using the change of the regime as a starting point for the creation of a free economy in the country would be an example of what social time means, because the stress is not simply on the date when the regime changed, but on the qualitative change that the change of the regime entailed for the society. The Soviet government, for example, identified the origin of all the positive developments in the country with the October Revolution and all the negative developments with the old bourgeois regime, thus, using the social time for reference. Likewise, today, in Russia the ‘winners’ in the transition game identify all the bad features of the society with communism and communists and all the good ones with the ‘new’ era. The social time is, thus, socially constructed and is not a continuous phenomenon.

According to Anna Federova, one of the characteristics of the social environment in Russia today is its period of ‘timelessness.’ In such a situation social and subjective time no longer correlate with each other and the time structure of ‘past-present-future’ is destroyed. The past loses its meaning, including at the level of social and personal memory; the present is shaky and unclear; the future is conditional and unpredictable and does not originate from the present.”

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9 Anna V. Federova, “Social Time and Managerial Risk” (Diss., Saratov Region Academy of Public Administration, 2003).
survey did not make any correlation between the past events in the country and their current state of being.

A study of Russian business elite conducted in collaboration with the Russian Academy of Sciences has demonstrated this phenomenon in relations to the future – the respondents of that study were reluctant to discuss models of the country’s development in the next 10-15 years: ‘If you start developing hard plans and forecasts, you, in advance, increase the chances of failure. If you just feel your way through, you can intuitively feel the situation and do not burden yourself with obligations that are beyond your ability to fulfill;’ 11 ‘I live in a situation of risky uncertainty....I know that I personally will survive....But how long will I exist doing what I am doing, that I don’t know. And neither do hundreds of other businesspeople...’ 12 Instability and legal ‘chaos’ make the business environment unpredictable and the need to look beyond a few years ahead may not pay off, because the future is too uncertain.

Apparently the present does not have much of an influence on Russian businesspeople either. While the majority of the Hungarian respondents experience some kind of obstacles from their external institutional environment, including high taxes, bad policies, and burdening economic regulations, the Russian respondents perceive very minimal impact of institutions on their work. This either means that the institutions indeed do not pose any constraints, or they do, but the respondents do not see them or do not want to disclose them.

10 Ibid.


12 Ibid., 87.
The first scenario is highly unlikely. One only needs to look at any discussion of the business environment in Russia to see that its institutions are anything but business friendly.

The second scenario may incorporate a number of features. First, it is possible that the respondents are aware of all the externally imposed difficulties, but do not see them as such, because they have become a normal part of their business life. Second, the respondents do not want to talk about them, because they do not want to ‘look bad’ and want to appear in ‘control’ as was a common ‘strategy’ of communists. Third, any external constraints can get taken care of through informal ‘transactions’- corruption or criminal activities, and, thus, either cannot be talked about or do not represent much of a problem.

Considering the pervasiveness of corruption and criminalization of the Russian economy overall, the third alternative probably dominated the answers, even though the first two may have had an influence as well.

As in Soviet times, when corruption and criminal activities were an inseparable part of the official economy, Russian economic life today is no exception. Every problem can be solved by paying someone – either a corrupt bureaucrat or a criminal group. A Russian businessman, who owns a small-scale production business, once told me that no tax inspector has ever seen his books, because the inspector gets ‘taken care of’ before he/she reaches them. If it is easy to pay someone off, then constraints stop being a problem.
An example provided by Kurkchiyan supports the above point very well. All respondents in her study of Armenian, Russian, and Ukrainian legal cultures indicated that the majority of businesses fall in the ‘gray’ area of legality in those countries. To explain what that meant an Armenian businessman gave an example of how he uses two different lists for recording employees’ salaries. One list goes to the tax inspector and records lower salaries than what employees really get paid to reduce the company’s social security payments. The other list is only meant for internal use and it contains the actual amounts paid to each employee. The tax inspector is aware of the practice; and neither side (neither the manager, nor the tax inspector) makes it a secret. Despite being clearly illegal, the practice nevertheless is accepted as normal by everyone involved and does not represent a problem to either party.

Since the current study did not question the respondents about these issues, it is impossible to make any definite conclusions in this regard. Considering the overall trend in the country, however, it is highly possible to attribute the lack of influence of formal institutions in the study to widespread corruption and criminalization of the economy.

In chapters 1 and 4, a mention was made of the concentration of businesses in the hands of a few oligarchs in Russia. This theme surfaced during the discussion of the Russian respondents with interviewers as well. No specific notes were made, but the main interviewer that was working with me on the research would often describe a company in relation to another company as owned by the same people or having some kind of a connection. In the survey this probably manifested itself in the fact that most of the Russian respondents were hired directors and not the owners themselves.

The legacy of one-man management in the Soviet Union can be seen in the goal and strategy setting practice among the Russian respondents – the owner, though not being involved in the day-to-day management of the business, sets the goals for the business overall and the director and/or the marketing department implements those goals. The study of Russian business elite mentioned above observes the tendency as well. The respondents of that study provided the following justifications for being unwilling to transfer full management rights to the top management of their companies: the immature state of market relations in the country makes it difficult to manage a business and make it profitable – “the owner can hire management, other people, but he himself has to run his business;” there is a weak guarantee of protection of ownership rights; there is a lack of trust in other people, which leads to the conviction that the manager would eventually steal the property; there is a belief that the strategy can only be decided by one person – the owner.\textsuperscript{14} Despite the seeming diversity of the answer, they all have one common link – they assume one-person ownership of business, even though the respondents were all owners of large-size business organizations.

Hungary made the first steps towards a corporate type of management already in the first half of the 1980s with the transfer of management and some property rights to employee councils or general meetings placing the manager under the authority of these bodies as well. During interviews the majority of the Hungarian respondents while describing their goal and strategy setting procedure either used ‘we’ in their answers such as “we always consider the needs of our partners...,” “we do market research...,” “our

\textsuperscript{14} Chirikova, \textit{Lideri}, 106-107.
aim...,” or put a stress on following a certain plan. The exception were enterprises employing only a few people, in which the owner makes most decisions himself/herself, The elitist nature of the Russian economy is directly derived from the elitist nature of the Soviet economy. When the ideological change finally gave room to private initiative and state property was beginning to be transferred to private hands, there were only three groups that had access to these state resources – the black market entrepreneurs, directors of state enterprises, and the party and komsomol leaders. According to a Moscow sociologist, two-thirds of the new Russian businesspeople come from the Soviet nomenklatura [former party apparatus], and the most successful and the richest ones started out with having support from within the state; “They were never small and they were never poor.”  

15 The former directors and black market entrepreneurs constitute another large group of owners, who had acquired their businesses through privatization; “most of today’s directors are former black market entrepreneurs.”  

16 The old political and economic elite, then, simply changed names and places, but remained in power.  

This process has led to the inter-penetration of the business world and the government: “most of the government officials now are involved in business, which means the same people run the government and business.”  

17 In contrast, when the Hungarian businesspeople complained about involvement of the government in the economy, they stressed the imposition of economic regulators such as high taxes or

15 Thane Gustafson, _Capitalism Russian-Style_ (Cambridge: Cambridge University Press, 1999), 111.

16 One of the Russian respondents.

17 A Russian respondent.
giving preferential credits to people with connections, rather than the ‘joint ownership’ of the two.

The elitist nature of the Russian economy also contrasts with the ‘second class’ nature of the Hungarian economy. Not only were the majority of the Hungarian respondents the owners themselves that participated in the day-to-day operation of the business, a number of them had established their businesses anew, because they had lost their old jobs and had to figure something out to survive.

If the Russian respondents were more or less uniform in their ‘reluctance’ to pinpoint what political events had influenced their business world, the Hungarian respondents were as much divided on just what kind of an effect the main political events had had. While giving the change of the regime a high rating of influence on a seven-point index, opinions still ranged from ‘political and economic empires separated’ to ‘the politics and the economy came closer to each other.’ One explanation that the historical analysis may offer to this contradictory trend is the diversity of economic behaviors that were present in Hungary during the communist regime. The discussion in chapter 4 provided examples of more market-oriented subsidiaries of large state enterprises, or of the entrepreneurial nature of semi-private enterprises, or of the widespread private activity of ordinary citizens. These various backgrounds could be manifesting themselves in the answers of the respondents as well. Someone who worked for a subsidiary of a state enterprise or for a semi-private enterprise in the communist times may have felt less of an effect of politics on hi/her work than now, as opposed to someone who worked for a state enterprise that was directly subordinated to the ministry.

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18 Two different Hungarian respondents.
Concluding Remarks

This research has provided a general overview of the differences in the Hungarian and Russian economic developments; illustrated how these differences played out at the end of the communist era; and connected some of them to the present-day situation. Because of the complexity of issues involved in development, the study only touched upon general social, economic, and political tendencies, and omitted many details.

The study quite clearly demonstrated the persistence of main characteristics of a society through time and the continuity in its development. Recognition of those characteristics and the limitations that they may impose on the process of change can make the process much more efficient. For example, accepting the fact that Russia always lacked the rule of law would have required an absolutely different transition strategy – one that would rely less on changing laws and regulations, but would rely more, may be, on strong leadership. May be the ‘right’ strategy would have required a very slow and gradual process of transition, one that would have acknowledged the country’s limitations and proceeded accordingly.

It is not my intention here to suggest the route that Russia should have taken. This is a far more complex and multi-dimensional question, with which this study cannot and does not want to cope. My intention is to point out that history and culture manifest themselves in more than just little trinkets like nesting dolls or tee shirts with McLenin on the front. History and culture are present in every aspect of society.

When Vladimir Putin announced that governors of Russian regions would, from then on, be appointed by the President and not elected by the people, the Western observers ‘issued’ an alert of de-democratization in Russia. The Russian people sighed
with relief—‘hopefully order will be restored.’ People put more trust in the President, than in elections, not necessarily because they do not trust themselves, but more likely because they do not trust the system. They could never trust the system, and the only way order has ever been restored in the country is by having a strong ruler taking charge of it. Even I remember people recollecting, with nostalgia, their memories of Stalin’s times as the safest and the most orderly.

Hungary’s uniqueness may seem to have generated less attention in this research than Russia’s specific features. This is not out of disregard for the country. In the subjects that have been covered by this work Hungary represents the ‘model’ and Russia represents the deviation from the ‘model.’ The general strategy of the transition process of the 1990s found a good match in the Hungarian system—the country had had a long history of private initiative, the market mechanism had already been introduced into the system, its legal system had operated well, and the rule of law had prevailed, just to name a few. All these elements were necessary for the transition to be successful. Russia, on the other hand, did not have any of those elements. It has not developed them in the 1990s either, not because its process of transition was poorly designed, but because its logic of operation was absolutely different. Hence, it was not ready for major changes and was not receptive to them.

The countries find themselves at different crossroads today as well. Hungary is a member of the European Union and all its hopes lie in the West. Its economic and political system with time will resemble that of a Western European nation even more. Its business practices, as well, will approximate those of a mature market economy quite soon.
Russia’s situation is much more ambiguous. It finally has a President that seems to have power and ability to bring the country out of crisis, but who readily utilizes his power to breach the law or to increase his authority when he considers it necessary. Despite quite successful market transformations in the capital, the country’s periphery still significantly lacks behind. I, like the managers in one of the above-mentioned studies, am very reluctant to provide any predictions of the country’s development in the future - it is just too uncertain.

Where can the research idea advanced by this study go next and what lessons does it provide? In application to the two countries under consideration the analysis can be expanded by narrowing its focus to a particular issue or a set of interrelated issues, such as the development of the rule of law and the government legitimacy, depending on what aspect of these two countries’ developments one is wishing to study. In application to analyzing the transition process in other former communist countries, the study suggests that possibly these and other elements, such as history of the development of private initiative during communism and before, can explain certain successes and failures of the process in those countries as well.

The main lesson of the study, though, is in demonstrating the importance of country-specific characteristics for development by building an illustrative case of how the developments of the two countries have proceeded according to their own history and tradition. It implies, then, that understanding history and culture of any country would significantly improve understanding of that country’s current and future economic and political processes.
APPENDIX 1

SELECTION OF REGIONS

Originally, the survey was to be administered in Jász-Nagykun-Szolnok county in Hungary and the Saratov region in Russia. The Saratov region was chosen because it is my home region. Jász-Nagykun-Szolnok county was chosen because its rank among the other Hungarian counties on the volume of industrial output (63rd, 3rd quartile) was comparable to the rank of the Saratov region (67th, 3rd quartile) among other Russian regions (Tables 2.1 and 2.2). Considering that the Saratov region is industrial-agrarian (about 20% of its economically active population is employed in industry and another 20% in agriculture), Jász-Nagykun-Szolnok county was preferred over Komárom-Esztergom county, which ranked 68th on the industrial output and also fell into the 3rd quartile, because the proportion of its economically active population employed in agriculture is higher than that in Komárom-Esztergom county.

During the survey preparation stage, in 2002-2003, in compliance with Act XXI of 1996 on Regional Development and Regional Planning, a system of planning-statistical regions was set up in Hungary. As a result, Jász-Nagykun-Szolnok county was incorporated into the Northern Great Plain planning-statistical region along with Hajdú-Bihar and Szabolcs-Szatmá-Bereg counties.

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1 Calculated on the basis of the data provided on the web-site of the regional government at http://www.saratov.gov.ru/region/population/index.html?lang=en (in English)

2 According to the 2001 Census data, available at http://www.nepszamlalas.hu/eng/, the proportions of economically active population employed in agriculture and industry in Jász-Nagykun-Szolnok county are 9% and 28% respectively and in Komárom-Esztergom county are 4% and 33% respectively.
The new system was set up to bring the country’s territorial division in line with the requirements of the European Union’s territorial classification system, NUTS (Nomenclature des Units Territoriales Statistiques – The Nomenclature of Territorial Units for Statistics). There are three levels of NUTS territorial units, which are arranged hierarchically. NUTS level 1 units incorporate major socio-economic regions of each member state; in some cases a level 1 unit is represented by a whole country. NUTS level 2 units are the basic regions, within the framework of which regional policies are normally developed. The Northern Great Plain region constitutes a level 2 unit. Individual counties are level 3 units.

Since the new planning-statistical regions are to become the basic units of regional development, I decided to incorporate the whole region into the survey, rather than just one county. Even though Hajdú-Bihar and Szabolcs-Szatmá-Bereg counties have a lower level of industrial output than Jász-Nagykun-Szolnok county, overall the region is still a good fit for comparison with the Saratov region. Its volume of industrial output among other planning-statistical regions falls right in the middle (Table 2.3), and the regions that have a higher level of industrial output have a very narrow agricultural sector, which makes them bad fits for comparison with the industrial-agrarian Saratov region. The Northern Great Plain region with a total population of 1,547,748 people is also a better unit of comparison to the Saratov region (population of 2,680,000) size-wise than Jász-Nagykun-Szolnok county on its own with a population of only 417,008 people.
Table 1.1. Industrial Output by Region, Russia, 1999

<table>
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<tr>
<th>Region</th>
<th>Industrial Output (million Rub.)</th>
<th>Percent Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chechnya</td>
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<td></td>
</tr>
<tr>
<td>Evenkiytskiy autonomous okrug</td>
<td>13</td>
<td>0.00</td>
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<td>Aginskiy Buryatskiy autonomous okrug</td>
<td>61</td>
<td>0.01</td>
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<td>Taymyrskiy autonomous okrug</td>
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<td>Altai</td>
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<td>Karachayev-Cherkessiya</td>
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<td>Koryakskiy autonomous okrug</td>
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<td>Adygeya</td>
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<td>3,100</td>
<td>0.16</td>
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<td>Dagestan</td>
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<tr>
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<tr>
<td>Mariy-El</td>
<td>6,800</td>
<td>0.22</td>
</tr>
<tr>
<td>Chitinskaya oblast</td>
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<td>Magadanskaya oblast</td>
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<tr>
<td>Buryatiya</td>
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<td>Kamchatskaya oblast</td>
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<td>9,900</td>
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<td>Ivanovskaya oblast</td>
<td>10,000</td>
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<td>Kaliningradskaya oblast</td>
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<td>Mordovia</td>
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<td>0.33</td>
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<tr>
<td>Astrakhanskaya oblast</td>
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<tr>
<td>Khakasiya</td>
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<td>Kaluzhskaya oblast</td>
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<td>Tverskaya oblast</td>
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<td>0.52</td>
</tr>
<tr>
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<td>0.54</td>
</tr>
<tr>
<td>Stavropol’ skiy ray</td>
<td>20,000</td>
<td>0.54</td>
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Table 1.1. Industrial Output by Region, Russia, 1999 (Continued)

<table>
<thead>
<tr>
<th>Region</th>
<th>Industrial Output (million Rub.)</th>
<th>Percent Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altayskiy kray</td>
<td>21,000</td>
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<tr>
<td>Ul’yanovskaya oblast</td>
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<td>0.56</td>
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<td>Kirovskaya oblast</td>
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<tr>
<td>Novosibirskaya oblast</td>
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<td>0.60</td>
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<tr>
<td>Vladimirskaia oblast</td>
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<td>0.60</td>
</tr>
<tr>
<td>Voronezhskaya oblast</td>
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<td>0.60</td>
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<tr>
<td>Arkhangel’skaya oblast</td>
<td>25,000</td>
<td>0.63</td>
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<tr>
<td>Khabarovskiy kray</td>
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<td>0.63</td>
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<tr>
<td>Tul’skaya oblast</td>
<td>28,000</td>
<td>0.66</td>
</tr>
<tr>
<td>Belgorodskaya oblast</td>
<td>30,000</td>
<td>0.67</td>
</tr>
<tr>
<td>Saratovskaya oblast (Saratov Region)</td>
<td>30,000</td>
<td>0.67</td>
</tr>
<tr>
<td>Udmurtiya</td>
<td>33,000</td>
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<tr>
<td>Leningradskaia oblast</td>
<td>34,000</td>
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<tr>
<td>Yaroslavskaya oblast</td>
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<tr>
<td>Murmanskaya oblast</td>
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</tr>
<tr>
<td>Primorskiy kray</td>
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<tr>
<td>Komi</td>
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<td>0.75</td>
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<tr>
<td>Rostovskaya oblast</td>
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<tr>
<td>Lipetskaya oblast</td>
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<td>0.77</td>
</tr>
<tr>
<td>Krasnodarskiy kray</td>
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<td>0.78</td>
</tr>
<tr>
<td>Orenburgskaya oblast</td>
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<td>0.78</td>
</tr>
<tr>
<td>Volgogradskaya oblast</td>
<td>41,000</td>
<td>0.78</td>
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<tr>
<td>Yamalo-Nenetskiy autonomous okrug</td>
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<td>Sakha</td>
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<td>Vologodskaya oblast</td>
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<td>Irkutskaya oblast</td>
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<tr>
<td>Nizhegorodskaya oblast</td>
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<td>Permanskaya oblast</td>
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<tr>
<td>Moskovskaya oblast</td>
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<tr>
<td>Bashkortostan</td>
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<tr>
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<tr>
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<td>Sverdlovskaya oblast</td>
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<td>0.95</td>
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<tr>
<td>Krasnoyarskiy kray</td>
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<tr>
<td>Khanty-Mansiyskiy autonomous okrug</td>
<td>180,000</td>
<td>0.99</td>
</tr>
<tr>
<td>Moskva (Moscow)</td>
<td>180,000</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Min value 13
1st quartile 7,325
Median 17,500
3rd quartile 36,500
Max value 180,000

<table>
<thead>
<tr>
<th>County</th>
<th>Industrial Output (million HUF)</th>
<th>Percent Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nógrád county</td>
<td>100,000</td>
<td>0.00</td>
</tr>
<tr>
<td>Somogy county</td>
<td>170,000</td>
<td>0.05</td>
</tr>
<tr>
<td>Tolna county</td>
<td>173,000</td>
<td>0.11</td>
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<tr>
<td>Békés county</td>
<td>180,000</td>
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<tr>
<td>Baranya county</td>
<td>200,000</td>
<td>0.21</td>
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<tr>
<td>Heves county</td>
<td>206,000</td>
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<tr>
<td>Csongrád county</td>
<td>230,000</td>
<td>0.32</td>
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<tr>
<td>Szabolcs-Szatmár-Bereg county</td>
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</tr>
<tr>
<td>Bács-Kiskun county</td>
<td>270,000</td>
<td>0.47</td>
</tr>
<tr>
<td>Hajdú-Bihar county</td>
<td>270,000</td>
<td>0.47</td>
</tr>
<tr>
<td>Zala county</td>
<td>293,000</td>
<td>0.58</td>
</tr>
<tr>
<td><strong>Jász-Nagykun-Szolnok county</strong></td>
<td><strong>300,000</strong></td>
<td><strong>0.63</strong></td>
</tr>
<tr>
<td>Komárom-Esztergom county</td>
<td>367,000</td>
<td>0.68</td>
</tr>
<tr>
<td>Borsod-Abaúj-Zemplén county</td>
<td>494,000</td>
<td>0.74</td>
</tr>
<tr>
<td>Vas county</td>
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<td>0.79</td>
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<td>Pest county</td>
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<tr>
<td>Győr-Moson-Sopron county</td>
<td>1,148,000</td>
<td>0.89</td>
</tr>
<tr>
<td>Fejér county</td>
<td>1,340,000</td>
<td>0.95</td>
</tr>
<tr>
<td>Budapest</td>
<td>1,412,000</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Min value                      | 100,000                         |
1st quartile                   | 204,500                         |
Median                         | 270,000                         |
3rd quartile                   | 498,250                         |
Max value                      | 1,412,000                       |

Source: Central Statistical Office, Hungary.
Table 1.3. Industrial Output by Region, Hungary, 1999.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Industrial Output (million HUF)</th>
<th>Percent Rank</th>
</tr>
</thead>
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<tr>
<td><strong>South Transdanubia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baranya</td>
<td>200,000</td>
<td>0.00</td>
</tr>
<tr>
<td>Somogy</td>
<td>170,000</td>
<td></td>
</tr>
<tr>
<td>Tolna</td>
<td>173,000</td>
<td></td>
</tr>
<tr>
<td><strong>Southern Great Plain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bács-Kiskun</td>
<td>270,000</td>
<td>0.17</td>
</tr>
<tr>
<td>Békés</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td>Csongrád</td>
<td>230,000</td>
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<tr>
<td><strong>N. Hungary</strong></td>
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<td></td>
</tr>
<tr>
<td>Borsod-Abaúj-Zemplén</td>
<td>494,000</td>
<td>0.33</td>
</tr>
<tr>
<td>Heves</td>
<td>206,000</td>
<td></td>
</tr>
<tr>
<td>Nógrád</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Northern Great Plain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hajdú-Bihar</td>
<td>270,000</td>
<td>0.50</td>
</tr>
<tr>
<td>Jász-Nagykun-Szolnok</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Szabolcs-Szatmár-Bereg</td>
<td>242,000</td>
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</tr>
<tr>
<td><strong>West Transdanubia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Győr-Moson-Sopron</td>
<td>1,148,000</td>
<td>0.67</td>
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<tr>
<td>Vas</td>
<td>511,000</td>
<td></td>
</tr>
<tr>
<td>Zala</td>
<td>293,000</td>
<td></td>
</tr>
<tr>
<td><strong>Central Transdanubia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fejér</td>
<td>1,340,000</td>
<td>0.83</td>
</tr>
<tr>
<td>Komárom-Esztergom</td>
<td>367,000</td>
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<tr>
<td>Veszprém</td>
<td>257,000</td>
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<tr>
<td><strong>Central Hungary</strong></td>
<td></td>
<td></td>
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<tr>
<td>Budapest</td>
<td>1,412,000</td>
<td>1.00</td>
</tr>
<tr>
<td>Pest</td>
<td>693,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Statistical Office, Hungary.
APPENDIX 2

SAMPLING

The sample of Russian companies for the survey was drawn from the list of manufacturing enterprises\textsuperscript{1} obtained from the Statistical Office of the Saratov Region. The list contained 386 medium and large enterprises (100 and more employees) and 243 small enterprises (less than 100 employees).\textsuperscript{2} The medium and large enterprises on the list represented the population of all medium and large size enterprises in the region. The small enterprises were a 20\% random sample of all small-size enterprises in the region.\textsuperscript{3}

The sample used for the survey was drawn by randomly sampling 100 enterprises from each of the two size groups using Microsoft Excel’s random sampling tool. The final sample consisted of 171 enterprises - 79 small-size enterprises and 92 medium- and large-size enterprises, because a number of enterprises were randomly selected 2 or 3 times.

The Company-Code-Register (CÉG-KÓD-TÁR) disc produced by the Hungarian National Statistical Office was used to obtain the population list for the Northern Great

---

\textsuperscript{1} Enterprises classified in Section D “Manufacturing Industry” of the Russian Classification System of Economic Activity (Obscherossiiskii Klassifikator Vidov Ekonomicheskoj Deyatelnosti (OKVED), \url{http://www.gks.ru/scripts/free/1c.exe?XXXX66R.1} (in Russian)) or of the Hungarian NACE classification system available at \url{http://www.fifoost.org/database/nace/index_en.php}. The two countries have recently adopted the same classification system based on the European Union’s standard.

\textsuperscript{2} The Statistical Services classify enterprises only in two categories – small-size enterprises and medium- and large-size enterprises. Any division of enterprises into other size categories could only be accomplished if the employment data were available for each enterprise. These data become available only at the end of July – beginning of August of every year. I was time-constrained and had to undertake the survey before the data became available. I, however, tried to obtain the employment and income data for the previous year, 2002, but that was the last year when the old classification system of economic activities was used and, thus, the enterprises that would fall under Section D of the new classification system were classified in different sections of the old system. Since the Statistical Services kept the data for every year separately, it was impossible to link the enterprises from Section D of the new classification system with the data for those enterprises for previous years.

\textsuperscript{3} The population list of small enterprises is not available for public.
Plain Region of Hungary. NACE codes 1511-3720 for manufacturing\textsuperscript{4} were used to identify companies for the study. It yielded a total number of 4,271 companies. The database contained a revenue category and a staff category. All companies that did not have revenue and/or staff data were eliminated – 187 companies. Out of the 4,084 remaining, 2,494 companies were in the category of 4 or less employees. These companies were also excluded, because the predominant number of those entries were more likely to be private individuals engaged in a production of meat or some other product without establishing a formal organization to carry out their activity. The object of the research was to study business practices of organizations. The final population of companies from which the Hungarian sample for the study was drawn consisted of 1,590 companies with 5 or more employees.

All companies in the Hungarian population were divided into 3 revenue categories: R1 - less than $250,000, R2 - $250,000-$1,500,000, and R3 - more than $1,500,000;\textsuperscript{5} the percentage of each category in the total population was calculated; on the basis of these percentages the number of responses required from each category to yield 50 responses in total were calculated (Table 1). Table 1 also shows the number of companies that had to be drawn from each category to obtain a sample of 200 companies.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
Revenue Category & Number of Companies / Percent total & Number of responses / number drawn \\
\hline
R1 - Less than $250,000 & 600 / 38\% & 19 / 76 \\
R2 - $250,000 - $1,500,000 & 626 / 39\% & 20 / 80 \\
R3 - More than $1,500,000 & 364 / 23\% & 11 / 44 \\
Total & 1,590 / 100\% & 50 / 200 \\
\hline
\end{tabular}
\caption{Distribution of Companies by Revenue}
\end{table}

\textsuperscript{4} See footnote 1.
The final Hungarian sample was 188 companies, because 5 companies were drawn twice from R1 category, 4 companies were drawn twice from R2 category, and 3 companies were drawn twice from R3 category.

5 These amounts are approximate, because they were calculated by conversion of the original revenue categories that were given in Forints (the National Hungarian Currency) into dollars using the rate of $1 = 200 Forints.
APPENDIX 3

BUSINESS PRACTICES AND PERSONAL OPINION QUESTIONNAIRE

I. Organization’s Description and Respondent’s Information

1. What is your organization’s field of business? ______________________________
   __________________________________________________
   __________________________________________________

2. Approximately, when was the organization established? ____________________

3. Is your organization:
   □ privately owned         Privatized? □ Yes □ No
   □ state owned
   □ mixed private and state ownership
     Approximately _________% private Approximately ___________% state

3.1. What is your organization's legal structure?______________________________

4. Approximately, what percent of the ownership of the organization is each of the
   following? (These should sum to 100%.)
   __________% domestic (within the country) ____________% foreign (outside the country)

5. Approximately, how many full-time employees does your organization have? _____

6. What is your position in the organization?______________________________

7. What are your responsibilities?_____________________________________
   __________________________________________________
   __________________________________________________

8. Have you ever had any management training (courses, seminars, diploma, etc.)?
   □ Yes (please specify) □ No
9. Please select your age-group: □ less than 25 □ 25-35 □ 35-45 □ 45-55 □ 55 or above

10. Gender of the respondent □ Male □ Female

II. Business Practices

11. Does your organization have a mission statement? □ Yes □ No □ Don’t know
(Is there a specific sentence that your organization uses to describe its purpose?)

11.1 What is your organization’s mission statement? __________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

12. Does your organization set strategic goals? □ Yes □ No □ Don’t know

12.1 Could you list current goals of your organization? __________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

13. Does your organization make a plan or a strategy to achieve the goals?
□ Yes □ No □ Don’t know

13.1 How far ahead do you plan or strategize? __________________________

13.2 What is the process by which your organization determines the goals and its plan or
strategy? __________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

14. Do you measure your organization’s performance? □ Yes □ No □ Don’t know
14.1 Approximately, how often do you measure your organization’s performance?
☐ Weekly
☐ Monthly
☐ Quarterly
☐ Every six month
☐ Yearly
☐ Other ___________________ ____________________________________________

14.2 What measures do you use to measure your organization’s performance? __________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

15.1. Are there any external (outside of your organization) factors that facilitate the
achievement of your organization’s goals and the execution of its plan or strategy, or
that positively effect your organization’s performance? ☐ Yes (specify) ☐ No ☐ Don’t know
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

15.2. Are there any external (outside of your organization) constraints or obstacles that
make it difficult for your organization to achieve its goals, execute its plan or strategy,
or that negatively effect your organization’s performance?
☐ Yes (specify) ☐ No ☐ Don’t know
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
15.3. Are there any internal (within your organization) factors that facilitate the achievement of your organization’s goals and the execution of its plan or strategy, or that positively effect your organization’s performance?

☐ Yes (specify)  ☐ No  ☐ Don’t know

______________________________________________________________________________________

______________________________________________________________________________________

______________________________________________________________________________________

15.4. Are there any internal (within your organization) constraints or obstacles that make it difficult for your organization to achieve its goals, execute its plan or strategy, or that negatively effect your organization’s performance?

☐ Yes (specify)  ☐ No  ☐ Don’t know

______________________________________________________________________________________

______________________________________________________________________________________

______________________________________________________________________________________

16. Does your organization have competitors on the market?  ☐ Yes  ☐ No  ☐ Don’t know

16.1 What is your market share?  __________________________________________

(if don’t know, how many competitors do you have?)

17. Is it necessary for an organization in your business environment to have regular evaluation of its competitors’ performance/strengths/weaknesses/strategies?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

17.1 Approximately, how often does your organization evaluate its competitors’ performance/strengths/weaknesses/strategies?

☐ Weekly
☐ Monthly
☐ Quarterly
☐ Every six month
☐ Yearly
☐ Other ________________________________
17.2 How do you evaluate your competitors’ performance / strengths / weaknesses / strategies?

______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

18. Is it necessary for an organization in your business environment to regularly evaluate its products’ quality vis-a-vis its competitors’ products’ quality?

-not at all- to a great extent
1  2  3  4  5  6  7

18.1 Approximately, how often does your organization evaluate its products’ quality vis-a-vis your competitors’ products’ quality?

☐ Weekly
☐ Monthly
☐ Quarterly
☐ Every six month
☐ Yearly
☐ Other ________________________________

18.2 How do you evaluate your products’ quality vis-a-vis your competitors’ products’ quality?

______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

19. Is it necessary for an organization in your business environment to regularly evaluate its customers’ satisfaction?

-not at all- to a great extent
1  2  3  4  5  6  7
19.1 Approximately, how often does your organization evaluate its customers’ satisfaction?

☐ Weekly
☐ Monthly
☐ Quarterly
☐ Every six month
☐ Yearly
☐ Other ________________________________

19.2 How do you evaluate your customers’ satisfaction?

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

III. Personal Opinion

20. In your lifetime what kind of political and economic changes have happened in your country that have had an altering effect on your business environment? __________

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

21. What time period or years do you associate with each change? _________________

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

22. To what extent do you think these changes have effected your local business environment?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>to a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22.1 Please specify the effects of each change on your local business environment.

______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

23. To what extent do you think these changes have affected the job of a manager like you?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

23.1 Please specify the effects of each change on the job of a manager like you.

______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

24. To what extent do you think these changes have affected the qualities or skills that are required to perform the job of a manager like you?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

24.1. What kind of qualities or skills are required to perform the job of a manager like you in the current business environment? ____________________________
24.2. What kind of qualities or skills do you think were required to perform the job of a manager like you before each change? __________________________
____________________________
____________________________

25. To what extent do you think these changes have affected the relationship between the government and businesses?

<table>
<thead>
<tr>
<th>not at all</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>to a great extent</th>
</tr>
</thead>
</table>

25.1. Please specify the effects. ________________________________
____________________________
____________________________
____________________________
APPENDIX 4

MAPS OF RUSSIA AND HUNGARY

Figure 4.1 Administrative Divisions, Russia

Figure 4.2 Counties and Planning–Statistical Regions, Hungary
## APPENDIX 5

### GDP PER CAPITA AND ECONOMIC HEALTH INDICATOR BY COUNTY AND REGION, HUNGARY.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Counties</th>
<th>GDP per capita (average = 100)</th>
<th>Economic Health (factor values)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Hungary</td>
<td>Budapest</td>
<td>139</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>Pest</td>
<td>61</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>C. Transdanubia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fejér</td>
<td>106</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>Komárom-E.</td>
<td>131</td>
<td>89</td>
</tr>
<tr>
<td></td>
<td>Veszprém</td>
<td>116</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>W. Transdanubia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ór-M.-S.</td>
<td>111</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>Vas</td>
<td>82</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Zala</td>
<td>88</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>S. Transdanubia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Baranya</td>
<td>108</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>Somogy</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>Tolna</td>
<td>77</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>N. Hungary</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Borsod-A.-Z.</td>
<td>111</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Heves</td>
<td>100</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>Nógrád</td>
<td>77</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>N. Great Plain</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hajdú-B.</td>
<td>83</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>Jász-N.-Sz.</td>
<td>93</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Szabolcs-Sz.-B.</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>S. Great Plain</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bács-K.</td>
<td>79</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Békés</td>
<td>89</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Csongrád</td>
<td>109</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>Hungary</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: József Nemes-Nagy 2001, 46.

*High positive figures mean relatively high income levels, low unemployment rates, a large number of business ventures, and a large volume of foreign capital investment. Figures close to zero represent the average.


**APPENDIX 6**

**DISTRIBUTION OF COMPANIES ON THE POPULATION LIST BY COMPANY SIZE AND THE SIZE OF THE TOWN WHERE THE COMPANY IS LOCATED, RUSSIA**

<table>
<thead>
<tr>
<th>Town Size¹</th>
<th>Small Enterprises</th>
<th>Medium and Large Enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent of Small Size Companies in the Region</td>
<td>Percent of Medium and Large Enterprises in the Region</td>
<td>Percent of Total in the Region</td>
</tr>
<tr>
<td>Less than 3,000</td>
<td>7 (3%)</td>
<td>18 (4%)</td>
<td>25 (4%)</td>
</tr>
<tr>
<td>3,000 – 9,999</td>
<td>16 (6%)</td>
<td>31 (8%)</td>
<td>47 (8%)</td>
</tr>
<tr>
<td>10,000 – 19,999</td>
<td>3 (1%)</td>
<td>27 (7%)</td>
<td>30 (5%)</td>
</tr>
<tr>
<td>20,000 – 49,999</td>
<td>9 (4%)</td>
<td>50 (13%)</td>
<td>59 (9%)</td>
</tr>
<tr>
<td>50,000 – 99,999</td>
<td>9 (4%)</td>
<td>31 (8%)</td>
<td>40 (6%)</td>
</tr>
<tr>
<td>100,000 – 249,999</td>
<td>48 (20%)</td>
<td>72 (19%)</td>
<td>120 (19%)</td>
</tr>
<tr>
<td>250,000 and more</td>
<td>151 (62%)</td>
<td>157 (41%)</td>
<td>308 (49%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>243 (100%)</td>
<td>386 (100%)</td>
<td>629 (100%)</td>
</tr>
</tbody>
</table>

## APPENDIX 7

### DETAILED DISTRIBUTION OF RESPONSES TO BUSINESS PRACTICE QUESTIONS

Table 7.1 Distribution of Responses by Whether the Company Has a Mission Statement or Not and by Whether the Company Has Ever Been in State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company is Located, Whether the Respondent Has Ever Had Any Management Training or Not, the Age and Gender of the Respondent

Whether the company has ever been in state ownership or not

<table>
<thead>
<tr>
<th>Does your organization have a mission statement?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>44</td>
</tr>
</tbody>
</table>

Number of Employees

<table>
<thead>
<tr>
<th>Does your organization have a mission statement?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>less than 20</td>
<td>20-49</td>
</tr>
<tr>
<td>Yes</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>12</td>
</tr>
</tbody>
</table>

Town Size

<table>
<thead>
<tr>
<th>Number of people</th>
<th>Hungary Yes, we have a mission statement</th>
<th>Hungary No mission statement</th>
<th>Russia Yes, we have a mission statement</th>
<th>Russia No mission statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3,000</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>3,000 – 9,999</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>10,000 – 19,999</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>20,000 – 49,999</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>50,000 – 99,999</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>100,000 – 249,999</td>
<td>18</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>250,000 and more</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>19</td>
<td>13</td>
<td>38</td>
</tr>
</tbody>
</table>

1 To code this variable, three cases were dropped (the two private Hungarian companies that did not identify if they were privatized or not and the Russian state owned company), the state-owned Hungarian company that indicated that it is to be privatized within a year was coded as privatized, and the Hungarian company in which the state has only intangible assets was coded as privatized. As a result, the total for this variable is 102 responses.
<table>
<thead>
<tr>
<th>Manufacturing Categories</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes, we have a mission statement</td>
<td>Yes, we have a mission statement</td>
</tr>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age of the Respondent</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your organization have a mission statement?</td>
<td>25-35</td>
<td>35-45</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender of the Respondent</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your organization have a mission statement?</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>Yes</td>
<td>6</td>
<td>29</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>46</td>
</tr>
</tbody>
</table>
Table 7.2 Distribution of Responses by Whether the Company Sets Strategic Goals or Not and by Whether the Company Has Ever Been in State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Respondent Has Ever Had Any Management Training or Not, the Age and Gender of the Respondent

### Whether the company has ever been in state ownership or not

<table>
<thead>
<tr>
<th>Does your organization set strategic goals?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>27</td>
</tr>
</tbody>
</table>

### Number of Employees

<table>
<thead>
<tr>
<th>Does your organization set strategic goals?</th>
<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>less than 20</td>
<td>20-49</td>
</tr>
<tr>
<td>Yes</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>12</td>
</tr>
</tbody>
</table>

### Manufacturing Categories

<table>
<thead>
<tr>
<th>Manufacturing Categories</th>
<th>Hungary Yes, we have strategic goals</th>
<th>Hungary No strategic goals</th>
<th>Russia Yes, we have strategic goals</th>
<th>Russia No strategic goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>7</td>
<td>2</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
<td>7</td>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>10</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Town Size</td>
<td>Hungary</td>
<td>Hungary</td>
<td>Russia</td>
<td>Russia</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------</td>
<td>---------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>Yes, we have strategic goals</td>
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<td>100,000 – 249,999</td>
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<td>250,000 and more</td>
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Management Training

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<th>Russia</th>
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Age of the Respondent

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Gender of the Respondent

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Table 7.3 Distribution of Responses by Whether the Company Develops a Plan or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Respondent Has Ever Had Any Management Training or Not, the Age and Gender of the Respondent

<table>
<thead>
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<th>Russia</th>
</tr>
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<tbody>
<tr>
<td></td>
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<tr>
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<td>25</td>
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<tr>
<td>No</td>
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<tr>
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<td>44</td>
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<table>
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<th>Number of Employees</th>
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<th>Russia</th>
</tr>
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<tr>
<td></td>
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<table>
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<tr>
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<th>Hungary No plan</th>
<th>Russia Yes, we have a plan</th>
<th>Russia No plan</th>
</tr>
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<tbody>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>5</td>
<td>4</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>3</td>
<td>4</td>
<td>0</td>
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</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
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<td>1</td>
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<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
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<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>2</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
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<td>1</td>
<td>2</td>
<td>2</td>
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<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
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<td>4</td>
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</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
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<td>3</td>
<td>1</td>
</tr>
<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c.</td>
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<td>1</td>
<td>3</td>
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<tr>
<td>Other</td>
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<tr>
<td>Total</td>
<td>33</td>
<td>21</td>
<td>22</td>
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<td>Town Size</td>
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<td>Hungary</td>
<td>Russia</td>
<td>Russia</td>
</tr>
<tr>
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<td>---------</td>
<td>---------</td>
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<td>--------</td>
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<tr>
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<tr>
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<tr>
<td>3,000 – 9,999</td>
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<tr>
<td>10,000 – 19,999</td>
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<td>2</td>
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</tr>
<tr>
<td>20,000 – 49,999</td>
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<td>50,000 – 99,999</td>
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<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>100,000 – 249,999</td>
<td>15</td>
<td>7</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>250,000 and more</td>
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<td>0</td>
<td>18</td>
<td>6</td>
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<td>Total</td>
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**Management Training**

<table>
<thead>
<tr>
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<th>Russia</th>
</tr>
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<tr>
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**Age of the Respondent**

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<tr>
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<tr>
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**Gender of the Respondent**

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</table>
Table 7.4 Distribution of Responses by Whether the Company Evaluates its Performance or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Respondent Has Ever Had Any Management Training or Not, the Age and Gender of the Respondent

<table>
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<tr>
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<th>Russia</th>
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</thead>
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<td>18</td>
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Number of Employees

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<th>Russia</th>
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<td>7</td>
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Manufacturing Categories

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<th>Russia Yes, we evaluate our performance</th>
<th>Russia No, we don’t</th>
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</thead>
<tbody>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>9</td>
<td>0</td>
<td>16</td>
<td>8</td>
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<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>7</td>
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<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
<td>2</td>
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<td>0</td>
</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
<td>4</td>
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<td>0</td>
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<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
<td>6</td>
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<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
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<td>0</td>
</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
<td>3</td>
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<td>0</td>
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<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
<td>1</td>
<td>1</td>
<td>4</td>
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<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
<td>8</td>
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<td>4</td>
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<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
<td>3</td>
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<tr>
<td>12. (DL) Manufacturing of electrical and optical equipment</td>
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<tr>
<td>13. (DM) Manufacturing of transport equipment</td>
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<td>1</td>
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</tr>
<tr>
<td>14. (DN) Manufacturing n.e.c</td>
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<tr>
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<td>Yes, we evaluate our performance</td>
<td>No, we don’t evaluate our performance</td>
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Management Training

<table>
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<tr>
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<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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Age of the Respondent

<table>
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<tr>
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</thead>
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Age of the Respondent

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Gender of the Respondent

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<th>Russia</th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>45</td>
</tr>
<tr>
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<tr>
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</table>
Table 7.5 Distribution of Companies That Use Profit as a Measure of Their Performance by Whether the Company Has Ever Been In State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Respondent Has Ever Had Any Management Training or Not, the Age and Gender of the Respondent (the number in parentheses is the total number of survey responses in that group)

<table>
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<tr>
<th>Whether the company has ever been in state ownership or not</th>
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<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Yes</td>
</tr>
<tr>
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<td>17 (44)</td>
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<table>
<thead>
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<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
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<td>20-49</td>
</tr>
<tr>
<td>Companies that use profit as a measure of their performance</td>
<td>8 (27)</td>
<td>3 (12)</td>
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</table>

<table>
<thead>
<tr>
<th>Manufacturing Categories</th>
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<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies that use profit as a measure of their performance</td>
<td>Companies that use profit as a measure of their performance</td>
</tr>
<tr>
<td>1. (DA) Manufacturing of food products, beverages and tobacco</td>
<td>5 (9)</td>
<td>9 (24)</td>
</tr>
<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
<td>3 (7)</td>
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</tr>
<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
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</tr>
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<td>4. (DD) Manufacturing of wood and wood products</td>
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<td>0 (0)</td>
</tr>
<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
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<td>4 (5)</td>
</tr>
<tr>
<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
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</tr>
<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
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</tr>
<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
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</tr>
<tr>
<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
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<td>3 (4)</td>
</tr>
<tr>
<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
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</tr>
<tr>
<td>11. (DK) Manufacturing of machinery and equipment n.e.c.</td>
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<td>12. (DL) Manufacturing of electrical and optical equipment n.e.c.</td>
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<td>13. (DM) Manufacturing of transport equipment</td>
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</tr>
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<td>14. (DN) Manufacturing n.e.c</td>
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</tr>
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<td>Russia Companies that use profit as a measure of their performance</td>
</tr>
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<td>-----------------------------------------------------------------</td>
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</tr>
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Management Training

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Age of the Respondent

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Gender of the Respondent

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Table 7.6 Distribution of Responses to the Four Point Index Variable 17 by Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for Russian Companies Only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

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### Number of Employees

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### Companies from the Food, Beverages, and Tobacco Industry

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### Management Training

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<td>5</td>
<td>1</td>
<td>5</td>
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<td>12</td>
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<td>8</td>
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<tr>
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Table 7.7 Distribution of Companies by Whether They Evaluate Their Competitors’ Performance/Strengths/Weaknesses/Strategies or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for Russian companies only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

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</tr>
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<td>35</td>
</tr>
<tr>
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<tr>
<td></td>
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</tr>
<tr>
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Table 7.8 Distribution of Responses to Question 18 by Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for the Russian Companies Only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

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### Management Training

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Table 7.9 Distributions of Companies by Whether They Compare Their Products’ Quality with the Competitors’ Products’ Quality or Not and By Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for Russian Companies Only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

### Whether the company has ever been in state ownership or not

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<td>Yes</td>
<td>No</td>
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<td>9</td>
</tr>
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<td>14</td>
<td>9</td>
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<td>Compare</td>
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<td>15</td>
<td>2</td>
</tr>
<tr>
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### Companies from the Food, Beverages, and Tobacco Industry

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<tr>
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### Management Training

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### Age of the Respondent

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### Gender of the Respondent

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<tr>
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<td>41</td>
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<tr>
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<tr>
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Table 7.10 Distribution of Responses to Question 19 by Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for Russian Companies Only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

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### Age of the Respondent

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Table 7.11 Distribution of Companies by Whether They Measure Their Customers' Satisfaction or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Number of Employees, the Food, Beverages, and Tobacco Industry (for Russian Companies Only), Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

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<th>Russia</th>
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### Age of the Respondent

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<td>45-55</td>
<td>55 and above</td>
</tr>
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<td>0</td>
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<tr>
<td>Do not measure</td>
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<td>Total</td>
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### Gender of the Respondent

<table>
<thead>
<tr>
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<th>Hungary</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Female</td>
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<tr>
<td>Measure</td>
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<td>44</td>
</tr>
<tr>
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</tr>
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### APPENDIX 8

**DETAILED DISTRIBUTION OF RESPONSES TO QUESTIONS 15.1 AND 15.2**

**Table 8.1 Distribution of Companies by Whether There Are Any Outside Factors That Positively Influence Them or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager**

#### Whether the company has ever been in state ownership or not

<table>
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<th>Russia</th>
</tr>
</thead>
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#### Number of Employees

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#### Manufacturing Categories

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<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
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<td>3. (DC) Manufacturing of leather and leather products</td>
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<td>4. (DD) Manufacturing of wood and wood products</td>
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<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
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<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
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<td>8. (DH) Manufacturing of rubber and plastic products</td>
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### Age of the Respondent

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### Gender of the Respondent

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Table 8.2 Distribution of Companies by Whether There Are Any Outside Constraints That Negatively Influence Them or Not and by Whether the Company Has Ever Been In State Ownership or Not, the Size of the Company, Industry, the Size of the Town Where the Company Is Located, Whether the Manager Has Ever Had Any Management Training or Not, the Age and Gender of the Manager

### Whether the company has ever been in state ownership or not

<table>
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### Number of Employees

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### Manufacturing Categories

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<tr>
<td>2. (DB) Manufacturing of textiles and textile products</td>
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<tr>
<td>3. (DC) Manufacturing of leather and leather products</td>
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</tr>
<tr>
<td>4. (DD) Manufacturing of wood and wood products</td>
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<tr>
<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
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<td>6. (DF) Manufacturing of coke, refined petroleum products and nuclear fuel</td>
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<tr>
<td>7. (DG) Manufacturing of chemicals, chemical products and man-made fibers</td>
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<tr>
<td>8. (DH) Manufacturing of rubber and plastic products</td>
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<td>9. (DI) Manufacturing of other non-metallic mineral products</td>
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<td>10. (DJ) Manufacturing of basic metals and fabricated metal products</td>
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### Manufacturing Categories

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<td>5. (DE) Manufacturing of pulp, paper and paper products; publishing and printing</td>
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<th>Russia</th>
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<td>Male</td>
</tr>
<tr>
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<tr>
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WORKS CITED


