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**OLD PRIORITIES IN THE CENTER OF NEW
MANAGEMENT STRATEGIES
(A HUNGARIAN CASE STUDY
ON HUMAN RESOURCES POLICY)**

1. Introduction

The scientific examination of economic and social changes in Eastern and Central Europe – including, of course, Hungary – can not be complete without a systematic analysis of the everyday operation of economic organizations. The transformation of the company structure is on the one hand part of the changes in the macro society, thus its study can result in many observations that are valid for the whole society. On the other hand, the analysis of the micro systems of the economy can reveal specific patterns of innovation that are unknown in other fields. Becoming familiar with these examples will contribute greatly to understanding the extent and characteristic features of the changes.

According to our experiences the present transition is taking place in the magnetic field of the past and the future. This is proved by the fact that during our field work we did not meet any management which was not trying to benefit from the experiences of previous reform attempts, nor with any which didn't foresee the future development of their companies within the framework of a market economy. The present study, therefore, focuses on the problems of human resource development strategies, considered to be the best example of continuity and discontinuity.

The empirical background of our paper is provided by current research – the first interviews were conducted in 1993, together with the researchers of the Nürnberg-Erlangen University¹

¹ The title of the project: „Transformation patterns in the transition to a market economy. A sociological analysis at plant level in Poland, Hungary and Bulgaria” The financial support was provided by the Volkswagen Stiftung.

2. The thesis of asynchronism of the changes

The theory of „simultaneity” is linked with the name of Claus Offe. Offe stated that the Soviet Union and its „satellite” states had to face at the same time all of the historical and social problems, which, in western countries, had been solved during a long historical process. (These are: territorial problems, the questions of democracy, conflicts of the economy and ownership, problems resulting from the political handling of the production and distribution network).

Offe’s statements of Offe are related to the historic time frame of the transformation and are valid regarding the macrosystems of society. The network of politics, economy and international relations is indeed dominated by the tension of „simultaneity”.

However, in the analysis of the economic microsystems, the thesis of simultaneity is impossible to interpret. The reason for this lies in the fact that in the transformation of economic organizations certain movements – for example mastering market behaviour – may take several decades, while other processes occur in a few months. (Retraining, for example, can not take years). Therefore we state that the transformation of microsystems happens at varying intervals, and this variation leads to the asynchronism of the accomplishment of tasks related to that transformation²

„You can not do everything at once” – as the Hungarian proverb goes. Although in many cases decision-makers have been trying to bring about (or force) changes at the same time in the organization, labour force policy, property relations, market strategy, production development and work process, they have always failed. The reason for this failure has many sources, for example the sound resistance of the management of companies to these plans. The management – in order to improve its status and bargaining position – most often specifies its objectives based on its own „priority list”, rather than on the basis of suggestions made by different advisory organizations and state institutions.

This – imaginary – list includes the tasks, related to the transformation, which are important or urgent, and measures that have to be taken without delay. The order is seemingly arbitrary, and in some cases may even depend on the success – or failure – of a company project. This happened for instance at a company where the management, recognizing the failure in looking for a new owner

² At this point our criticism becomes sharper. In our opinion Offe in his article tries to apply a previously created judgement instead of a systematic analysis. The time at which he wrote the article may serve as excuse for this. However we cannot dismiss the charge against the author that he misinterpreted the general history of the development of Eastern European societies. It is of course quite probable that Offe indeed considers the change to be an absolute beginning – his example obviously being the former GDR – where everything had to start from zero, and thus simultaneity constitutes a severe constraint of actual duties and tasks in every aspect of life. It is useless to say that the history of Hungarian society is different from other former socialist countries both in its origin and in the following process.

(though not giving up in the long run), set out to modernize the organization and the decision making system of the company. We had similar experiences with a company, where the need for long term orders was given priority, thus ahead of the obligation to pay back credits (or the social insurance contribution).

For these enterprises the principle of ranking the tasks was obvious: the „company” above all else.

Naturally the grading of the priorities means that before accomplishing the primary objectives other tasks must be neglected. The situation is similar to a deep freezer, where the whole range of food for a complete household can be found, but only the portion required for the family's present day needs can be warmed up. That is why we call this strategy – in a slightly abstract way – the „hibernation strategy”.

The consequences are evident: First of all, what the company considers to be important does not necessarily coincide with what external observers – economic political decision-makers or other agents of the political and economical system – judge to be significant. For instance, unless the company suffers from a serious lack of capital (and thus technological modernization can not be financed by internal resources), privatization does not generally appeal to the management.

In the second place, solving one problem does not necessarily eliminate the others. If – let's say – the new marketing policy proves to be successful, this fact does not in itself mean the rationalization of the personnel or wage policy. We can therefore expect an „avalanche-like” transformation, and the later (delayed) occurrence of certain problems.

Thirdly, the management – according to the hibernation strategy – does not attack simultaneously on all fronts, because the solution of some specific problems requires relaxed conditions, stability and sufficient time. Of course this does not mean that they are unwilling to face internal conflicts for the sake of their priorities – firing people from unprofitable divisions, while hiring the same number of marketing experts at double the salary – but they try carefully to isolate and control these disagreements.

Finally, the definition of priorities is influenced by a number of factors. Economic and market potential of the given sector of the economy, the location of the company and the composition of its labour force all combine to produce quite an effect on the prioritization. The external environment and its actors also exert a rather important, though not exclusive influence on the definition of the goals. During the last 2-3 years the playing field in which strategies must be created has become wider and the number of players in the game has increased, as did their independence and responsibility³.

³ We have to emphasize the importance of this problem. Research with system theory background consider the management of a company to be a systematically structured group of tasks. In this system of duties the combination of goals is set and accomplished almost at the same time. The priorities develop due to the influence of

The program of market building or the reform of human resource management may also top the priority list. Nevertheless, the management more often than not sees, the guarantee of company stability in the development and consistent enforcement of the wage- and social welfare-policy as well as of the educational and training strategy. It is therefore untrue that the objective of „changes in the ownership now and at any price” would rule out every other task.

This task list, being the result of a long and careful coordination of the different interests, serves as the scenario for the transformation. Yet it may happen that after a problem, considered major, is solved, the management returns to former priorities. For instance, after the rearrangement of the power system, essential for legitimizing organizational decisions, they start, once again, to look for an owner. To take another example, having stabilized the company's market position they return to their former wage policy.

The common points in these transforming, renewing, or just yellowing task lists are the following: 1. market problems, 2. property relations, 3. organizational system, 4. information system, 5. human resources.

We can understand the dynamics of the transformation from the condition, validity, success or failure of the strategies aimed at solving these task groups. However these strategy packages are neither parallel nor necessarily consecutive. That is to say, it may take a long time after the change in ownership to establish the optimal organizational system or to create a successful and appropriate educational and social policy. Thus, the successful privatization of the enterprise does not solve all its problems or automatically improve its market position.

3. Human Resource Management Strategies

Having presented the different strategy packages, we will now deal with the development strategies of human resource management.

Not only did the enterprises change the name of their personnel departments to human resource management, but they also changed their personnel policy. In this transformation the influence of the labour market tendencies has been vital.

The labor force policy of the enterprises after 1990 can be characterized by three typical processes: elimination of unskilled manpower with a low educational background, involvement of additional human resources from the professional labour markets and rejuvenation of the management.

the external environment of the system; however this does not change the principle of either the complexity or the simultaneity. (We are referring to the works of Niklas Luhman and his followers) We do not intend to discuss here the validity or invalidity of the system theory, but we would like to add that the analysis of the management of Hungarian enterprises in transformation paints a specific picture. Instead of the management of complexity it can be characterized more at the solution of some urgent partial problems. The theoretical analysis of our experiences will be the subject of another paper.

Parallel to this process the management offers the possibility of different bargains to its remaining (or new) employees.

3.1. The first option: raising wages

The extent of the raise may depend considerably on the company's market position and conditions of production. If the management chooses this strategy, the raise may be rather significant. For instance at one of the companies we examined for instance the average gross monthly wage of female workers increased within two years from 7.500 Ft to 18.500 Ft, which is considerably higher than the average in this sector (clothing industry), (from about 130 DM to about 310 DM).

In exchange, the management acquired increased freedom in its decisions. Since in our case, it was an industrial cooperative turning into Ltd., the bargain not only took place in the wages-power dimension, but also in a change of social status. The employees of the company lost their position as owners and consequently became wage workers, so the real issue of the bargain was the legitimization of this status change⁴. The wage policy was therefore conceived as part of the whole transformation of the organization. Moreover, it helped people to accept the change in social status.

The structure and nature of different wage policies depend significantly on the traditions of the given sector, the size and structure of the company, its own traditions as well as the activities of trade unions working within it – or within the sector.

It may happen that the traditions of the given sector „overvalue” some jobs.

„We inherited some wage policy traditions. They might have come from Western Europe in the seventies, or perhaps it was here that they became what they are now. It is impossible to say. Some positions received huge bonuses, others got nothing. This worked well while there were big series, while these bonuses truly served to raise to an appropriate level those with inferior possibilities.

⁴ We have to emphasize that in our case the social status of the employees only seems to decline. Within the company no one really considered it to be a real social fall, and with good reason. The workers as members of the cooperative made a lot less money and at the same time they shared the incredibly high losses of the company. They were well aware that they didn't know anything about business, so their votes only served to legitimize the errors of the President. (They were right, as the story proved) Although the leaders – especially at middle level – had a considerable share in the bankrupt company's fortune, on the other hand after the changes they were finally able to work as real managers, with the legitimate power of the owner behind them. The example of the enterprise illustrates well the uselessness of hypothetical scenarios, since losing their property not only freed these people from a schizophrenic situation, but it even ensured them a better living. In reality this loss turned a strange and embarrassingly mixed-up situation into industrial relations. Let's underscore it once again: ownership is not everything. We also have to add: even under capitalism, not everybody is an owner. We fear that the majority is wage workers, (or employees working for a wage).

But it is no longer like that, today we really have to differentiate between jobs, positions, people and series" (director of a clothing factory).

The proportion of wages fixed by the traditions of the sector can no longer be discerned in prices on the world market. The extremely unequal wages also hinder consistent quality control. In most cases, the positions traditionally honoured with higher wages are not those that are important for today's market success. Nowadays the work of a packager or an ironer is more important in terms of profit than the work of someone operating an auxiliary specific machine (attaching, for instance, buttons), who in the days of technological modernization, received a high salary just because he was operating modern technology.

Technology is still an important factor, machines produce at a consistently high level. However, it is unreasonable to overvalue the person operating the machine, since this high level of production is not due to his personal merit – goes the management's argument in favour of wage reform.

„There are still great reserves in people. The question is how much can you squeeze out of them... It is really bad when a norm starts to become personal. It may happen that someone who does it right has been doing it for 50 years, and can do it in half a minute. But someone else, who has been doing it for two years still needs three minutes to do it..." (Chief engineer of a clothing company).

The size of the enterprise also affects its wage policy in many ways. The wage-category system of a major company is more stable – and thus more rigid – than that one of a smaller enterprise. On the other hand, the transparent wage policy of small or medium enterprises (in our research medium size means max. 500 employees) sometimes leaves too much room for short-term agreements between the management and the workers. This brings unnecessary tensions into the production process. At the same time the establishment of a rich variety of wage types can be observed in the different enterprises. It really seems justifiable to speak about the pluralism of wage policies.

Nevertheless, one of the most important problems is that it is difficult to connect wages to market efficiency because of organizational and territorial division in production, or lack of appropriate coordination. At different levels of production different interests are at work, and their influence upon the formation of wages or the definition of norms should not be neglected. That is why, for instance, in a clothing factory the group norm set for cutting machines (not the automatic GERBER type, but manual ones) had to be complemented with special additional indexes compensating for personal performance, because members of the group, taking advantage of their monopoly situation, forced the management to do so. Those cases, where only by differentiated wage bargains could the management create the stable background needed for market success; also resulted in a complicated and confused wage system. The same was true when the manage-

ment used these bargains to encourage employees to undertake overtime or perform within strict deadlines.

The structure of an enterprise may include a number of positions that cannot be paid by performance based wages. We think first of all of administrative positions, research, development, or client service. In these cases the relationship between the performance of the company and these jobs becomes indirect: There have been no apparent changes in the discontinuation or rationalization of this indirect relationship since 1990. Neither in the case of medium sized enterprises is there any direct connection between the wages of – let's say – administrators handling export or import issues and the actual market sales of the enterprise. According to our observations potential market sales influence only the wages of actual producing workshops and units. Even then in an indirect way, with the introduction of a complicated administrative process of collective bargaining.

Conversely, in smaller companies very often there is a close connection between the increase in wages and the profit earned. The raise appears as a tangible result of successful market operations, and functions as an exchange value of additional performance. In these enterprises the management can gain support not only for its wage or organizational policy, but also for its market strategy with a spectacular raise – even if it's financed with loans.

In most of the enterprises examined, the raise in wages was rather significant. Having previously quoted exact figures of the raises in one enterprise, let's now cite from another company's journal the declaration of the general director: "The exceptional performance our Company's workers has not been in vain. Our profit enables us to honour our employees with a premium worth 1 month's gross wage... I ask all our colleagues to work for the rest of this year with the same spirit, enthusiasm and expertise, because it is also very important for giving a solid foundation for the next year."

One of the important factors influencing wage policy is the activity of trade unions. All over the world, raising and maintaining wages is the most important element of a successful management policy against unions. It is also similar in our case.

„Unions don't have to have rights, such as influencing hiring. This is the boss's business, he knows who to hire for a special job. But we do have the right to have a say in matters of wage. For instance, if there is a differentiated raise, he should not be the only one to decide who will get what. There are good directors, who will tell the shop steward, 'O.K., come in, we'll talk things over'. He will share the responsibility, and it's more convenient for him too. And for us it's undoubtedly better". (Head of the union of a major bank).

Besides trade unions, employees themselves also support strategies aiming to raise wages. That is the reason why at those companies without unions – these are generally the smaller ones – the management may surely count on improved

performance in exchange for increased wages. However, the union not only supports the policy of raising wages, but is also willing to take part in the formation of this policy. This is clearly proven by the text of collective agreements, where the union tries to establish different legal and procedural guarantees to ensure its role in influencing wages⁵. One of the collective agreements says, for instance, the following: „The proposed modifications may be presented to the employer and/or to the Unions drafting the Collective Agreement. The organization receiving the proposal must send it to the other contracting party... Every year before February 28th the employer is obliged to make a suggestion to the unions entitled to a contract – supplying at the same time all necessary data – concerning the settlement of rules in terms of wages and other allowances in a collective agreement...”.

3.2. The second option: keeping or improving the company's welfare system and services

Naturally, even those management's that put the strategy of raising wages first – considering it the primary means of motivating their employees – can not completely disregard the importance of social services supplied by the company. Therefore, in this category we restrict our examination to those enterprises, where the motivating of the employees is done principally by allowances and services offered by the company.

The strategy of supplying high quality social services works well particularly at those companies, which temporarily (or permanently) lack high profits. It is also effective if the number of employees is so high, that it is impossible to produce a 100-200 % raise (because of taxes, state withdrawals or the structure of technological division of labor). Our experiences show that this strategy can be successful primarily at companies which already possessed before 1990 a substantial social infrastructure (kindergartens, recreational facilities). This infrastructure has naturally been preserved – or Saved by strong unions – or even considerably enlarged and improved. For example, one of our companies introduced free gynecological care as a new service (89% of their employees are women), and their collective agreement also includes a schooling allowance for the workers. At other companies we also observed that the discontinued state benefits continue to exist as allowances and services provided by the company.

In addition to wage policy, social welfare is the other important area of human resource management. In this field there is an almost complete mutual understanding between management and unions. The company welfare policy, though,

⁵The formation of wages in Hungary between 1990 and 1994 can be characterized by the following tendencies.

is not only the subject of collective bargains, but is also the field of personal agreements, comparison of personal performance and individual personal allowances.

Social services and allowances are almost always regulated in the collective agreement. The situation is more interesting if there is no union, thus no collective agreement. According to our experiences this never means a lack of social policy, but in this case these issues are regulated by traditions, previous practice or simply by habits. Of course, the lack of a collective agreement considerably burdens the relationship between the management and the employees, since every single decision has to be made on the basis of special agreements and bargaining.

Today the range of social services is almost as wide as it was in 1990. Let us cite as an example an excerpt from the collective agreement of a major company: „The social welfare budget may be used for: 1) financing the following activities: financial assistance (welfare payments, school equipment, funerals, etc.), meals allowance, housing allowance, operation and maintenance of welfare; 2) institutions: subsidized vacation, kindergarten, financial assistance for dental care, cultural events, sports, organized excursions, support for other welfare and cultural activities”.

There are lots of reasons for maintaining and extending company welfare policy. It is not only a simple continuation of traditions, but a rational management behaviour.

„Our workers are very attached to our company. Some of them have been working here for 20-30 years, they are old-timers, and old-timers are more difficult to entice away. They have spent half of their lives here, so the offer must be very generous to make them leave this family. That is why in addition to the wages, we offer very high quality services, allowances and recreational possibilities.” (Human Resources Manager of a major bank).

In the opinion quoted above, we can see a mixture of rational personnel policy and traditional „caring” (paternal) strategy.

All the afore-mentioned do not contradict our actual observation that in the past 1-2 years the range of services has not in fact been enlarged. Moreover, some companies have decided – in cooperation with the unions – to discontinue some minor allowances, thus emphasizing the „preservation” and „maintaining” of services, instead of additional benefits.

3.3. The third option: improving the system of education and training

In general, we can say that in this field we encountered a new way of strategic thinking. However, we have to add that in many cases, education and training aims at providing rather particular knowledge and specific information useful exclusively in the given company, and therefore virtually useless outside of the

enterprise⁶. On the other hand, many training courses are being organized these days that improve the workers' general level of education. These may be language courses, managerial courses (at one of our companies members of the medium and high-level management have been almost without exception „driven” through these courses) or other studies providing professional certificates.

The range of training courses offered reflects the stratification of the company's society. In the case of leaders or professional intellectuals we tend to see more universal courses, which improve rather than hinder their chances on the labour market. In the case of labourers, „company-specific” courses providing technical knowledge, and methods that are useful only within the given enterprise, are more common.

In many cases we may say without exaggeration that the whole future of the company depends on the efficiency of the education and training process. The biggest challenge occurs in the field of services. For instance, in the case of a bank we examined the introduction of a modern computerized information system required further training for 62% of the employees. Because this project revolutionized all routine, administrative and service procedures, it would have been impossible to train the employees badly, partly or just superficially. Consequently the accomplishment of this project required the infrastructure, personnel and materials of a small school. The background of the training – besides significant western grants – was the educational basis previously established by the company. Without this basis the project would not have even been possible to start.

The importance of education and training is obvious to all management these days, especially in those sectors of the industry, where the intellectual capital of the company is the token of its market potential (for instance: the pharmaceutical industry). According to our observations, however, the esteem of education improved even in those sectors, where traditionally unskilled labor is dominant (clothing industry)⁷. It is therefore no exaggeration to say, that in specific sectors of the industry the educational and training strategies of the companies follow the trends of the world market, and thus become themselves the means of adjustment to this market.

„If training as a strategic sector will not serve as the basis for the future, in five years things will be the same as today...American, English, German and

⁶ This statement is not new. It is a characteristic of company training and education that has been thoroughly presented by different studies of labor and industrial sociology. We should mention here the works of Sengenberger, Mendius and Drexel.

⁷ In the clothing industry one of the reasons for this change is the new situation established on the world market. The demand for non-series, custom-designed clothing has overshadowed mass production. Parallel to these market tendencies, the structure of professional knowledge has also been rearranged, with capacities related to smaller series or small series production moving to the front. The knowledge of materials and techniques and the manual tricks needed for the craft-like production has once again become appreciated.

French banks will continue to come to Hungary. Concurrence on the market will intensify the competition, and this will raise the esteem of professional knowledge, the quality of techniques applied and the level of customer service of the bank. Education has to be prepared and has to prepare us for this." (Head of the Educational Department of a major bank).

Many companies were forced to establish their own educational basis before the changes in 1990, and to organize independently the recruitment of trainees. They had to develop their own educational activity because of the anachronistic and rigid nature of official professional training.

In the present day not all companies have former training experiences to lean on. Some enterprises went bankrupt, others started lay-offs precisely in the field of education. Naturally, the collapse of company education policies also occurred in the sectors of the traditional „socialist industry”, heavy industry.

Those companies, however, which did not close down their educational infrastructures, took over step by step the formation of their trainees and developed a conscious educational strategy, basing their present-day human resource management on their educational system.

Of course this fact does not mean a simple continuation of former practices. The reasons for a (voluntary or forced) change are various. The deep transformation of the company forces it in every case to innovate its educational strategy. It is simply unreasonable to continue a strategy that was designed for another company.

Changes in the market position of a company may also lead to a quick change in the educational strategy. It sometimes happens that the structure of production changes dramatically, new departments have to be created which influence greatly the profits and new branches of education and courses are born – almost from nothing. Such was the case in the establishment of the network of visiting agents promoting new products in the pharmaceutical industry, the establishment of marketing departments, or the creation of training courses in international trade and law. This change would not have occurred without the establishment of the market economy.

4. Conclusion

The alternatives outlined above are naturally interwoven. Besides their common elements, these strategies hide different priorities and mean different bargaining processes.

Behind the different strategies stands the change of the „catalysts”. One of our most surprising experiences was that the management of the companies examined was almost entirely in the hands of professionals belonging to the generation of '68, the so-called „Great Generation”. Becoming acquainted with their carriers

we learned that their professional background was rooted in the ateliers of the „economic reform”, and some of them had considerable foreign experience. The analysis of their vocabulary and views revealed a depoliticized thinking, free of any ideology, and a strictly professional, technocratic attitude towards their tasks and goals.

The extremist scenarios proved to be completely false. There is no collapse in the economy, though there is no outstanding prosperity either. There are no kids of former communist leaders reigning in the companies, and workers are not more exploited than before. We believe that political scenarios must be left to politicians, and all scientific analysis must be kept separate from these extremist arguments.

During the transformation of economic organizations, new problems and conflicts have arisen. The description and scientific analysis of these phenomena is a task of vital importance. However, in order to see the characteristics of the transformation more clearly, besides our political prejudices we must also free ourselves from a number of scientific attitudes and former ways of addressing these issues.

It is possible that many models, born of Western social science, must also be forgotten. Among them is that theory of transformation, which, starting from the radicalism of political takeover, tries to force the same radical discontinuity in the analysis of all levels of economy and society. Naturally, this problem further leads to an interpretation of the past and that of the social history of the past decades.

The actors of the economy are doing their own work, since they hardly have the chance to do otherwise. However, the transformation of the economy – at least according to Polányi – means that the economy has increasing autonomy, its organisations and their performance play an ever larger role in the reproduction of society. Hungarian society was not prepared for this change. One of the biggest conflicts of the coming years will most probably be centred around this fact, and this conflict will also limit the possibilities of company management.

Relevant literature

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**Dawne priorytety w centrum zainteresowania nowych strategii zarządzania
(węgierskie studium przypadku dotyczącego polityki zarządzania
zasobami ludzkimi)**

W artykule przedstawiono problemy związane z transformacją systemu gospodarczego na Węgrzech z punktu widzenia strategii rozwoju zasobów ludzkich. Autor stawia tezę o asynchroniczności zmian społecznych i niektórych procesów historycznych, zachodzących zarówno na Węgrzech jak i w krajach Europy Środkowej i Centralnej, biorąc za podstawę interpretacji teorię „symultaniczności” sformułowaną przez Clausa Offe. Rozważając zmiany strategii zarządzania zasobami ludzkimi na Węgrzech, przedstawia kilka ich kierunków. Zalicza do nich zwiększanie wynagradzania, utrzymywanie lub rozszerzanie przez organizacje systemu zabezpieczenia socjalnego oraz zwiększenie znaczenia systemu kształcenia i treningu personelu.