

## WHICH 'READY-MADE' RELATIONS CONTRIBUTE TO THE INTRA-ENTERPRISE RELATION?

In the past decades Hungary's economy has been controlled by large state-owned enterprises, while private ventures have been uncommon. In the past two to three years, however, the number of private firms has mushroomed. Unfortunately, in many cases, owners of such enterprises do not know how to properly relate to colleagues and to employees. All they do know is that they should have different relationships from those of the past. Since entrepreneurialism in Hungary lacks traditions and accumulated experience, the networks of relations within private firms are generally based upon friendships, family relations, and old professional contacts from the former regime.

In this paper I seek to answer the question what 'ready-made' relations constitute the basis for starting ventures and how these relations change as time passes in the life of the firm. In so doing, I attempt to classify the ventures into types. Since the analysis relies on the meagre basis of interviews with 30–40 small and medium-scale entrepreneurs, the types — often linked to a concrete case — will certainly be modified by further experience. The types can thus not be regarded as yielding a taxonomy in the strict sense covering the entire entrepreneurial sphere. I tend to assign the grouping a heuristic role, helping to illumine how those entering the independent sphere build up their firms using ready-made elements, transcending the past and at the same time being linked to it.

In classifying the working relations, two complementary approaches were adopted.

On the one hand, classification may rest on the extent to which the relation elements, the network of contacts adopted from somewhere else can be preserved in the private enterprise, and for which the subsequent development of the firm requires their redefinition, the criteria of which must also be taken into account.

On the other hand, classification may depend on from where, from which sphere (family, profession, etc.) do the relation elements and the contacts come.

The types defined on the basis of these two principles are so much intertwined in reality that it is not worth separating them. The following groups are therefore defined by the joint consideration of the two principles.

1. Possibly the widest-known type is a new venture incorporating employment relations developed in a former place of work, chiefly a state enterprise.

1. 1. Whole work teams are converted into an enterprise. The functional division of labour and the relations of sub- and superordination remain the same. The ready-made relations need not be redefined, only slightly modified.

A good example is a limited company dealing in some foreign insulation technologies. From the early eighties the head of the firm gradually created in his former employment a relatively independent department which only coopted colleagues who were willing to actively participate in developing new bridge and road insulation techniques, or in seeking out relevant technologies in the West and adapting them to Hungarian

conditions. It was typical of the department to admit new colleagues after stricter screening than the average in the enterprise, and at the same time to have less hierarchized relations. Besides the engineers a few skilled workers also belonged to the department who — sometimes at the cost of hard conflicts — also got used to the stricter regulations of Western technologies. In short, there was a set of working relations that could be adopted without essential changes by the private enterprise. No one had to be dismissed, nor was it necessary to newly regulate the former relations or pay differences.

A similar example is provided by the canteen chef of a large wine producer. When the firm went bankrupt, the chef purchased the canteen. This step was economically well-founded because he had a good team of workers who met the stricter requirements of discipline. From the late seventies the canteen, besides catering for the employees of the wine makers, arranged wedding receptions at the weekend, with an occasional banquet for hunters (including German and French ones). These extra activities not only supplemented the income of the kitchen staff but also required better and higher quality work than the daily routine. At the same time, the constant weekend work was a great burden. The high income level enabled the chef to choose his colleagues by strict criteria. The tasks being more specific, he allowed his colleagues a freer hand. Similarly to the above example, the relations that evolved among the staff and between boss and staff could be transferred into the private firm without substantial change.

The above two examples also reveal that the teams and their working relations were moulded by extra-enterprise possibilities and expectations. Entry into the team was not determined by the internal regulating mechanism, expectations or interests of the economic unit, but by some external factor. In the first case the wider and mostly differing professional field from that of the state firm exerted a strong influence. In the second example both professional and market influences were at work. When the private enterprises were launched, the former working relations did not need alteration. This, of course, is due to the continuation of the former activities, as well as the above-mentioned factors.

1.2. Complete groups are transferred into private firms but the power or hierarchical relations developed in the former workplaces (typically at state enterprises) are redefined. The well-knit groups at issue are mostly teams whose functioning and structure was moulded by adaptation to the inner relations of an enterprise. A typical example is the VGMK (quasi-entrepreneurial venture within a state firm). Their quasi-entrepreneurial work within the former large enterprise had not only professional and market conditions, but also conditions of power — it was useful to involve persons in the venture who could wield influence, e.g., persuade the management to shut an eye to the saliently high incomes or to the private work done during official working time. Consequently, the professional and power networks of the enterprise structured the internal relations.

When a team like this launches a private enterprise, the relations are necessarily redefined. Those who wielded power earlier, may lose their influence and become simple employees.



A good example is a formerly council-run small printing office. The head of the press bought the works and continues to control the operation as the single owner. This gave rise to an entirely new situation — he only kept the production staff and dismissed those who formerly had strong positions and high income from the business ventures of the press (still as a state firm) due to their involvement in the power hierarchy, or he gave them office work.

The entire network of relations was restructured after the firm became independent. Earlier the manager and his colleagues jointly decided about the jobs to be undertaken and calculated the expected gain for each person. This joint decision was important because no one could be made responsible for performing a job which was always made in haste, often well into the night or at weekends.

The owner abolished the system of joint decision-making which entailed that the staff has no insight into the financial position of the printworks. Unlike earlier, he pays them wages and not a dividend from the profit. The former more or less constant relations which were created and maintained by mutual trust and multiple — financial, technical, administrative — cooperation were redefined and replaced by employment relations. That practically deprived the team of its problem-solving potential but the relations became transparent and the staff easily controllable.

1.3. Unlike the former two types, enterprises in this category are not based on formerly developed teams. The owner coopts people who did not work at the same place. However, the relations that evolved in previous places of employment are very powerful and have an influence even if a new venture is not built on a prestructured team but on a set of individuals. In enterprises without a preformed structure the participants try to establish the kinds of relations experienced in their former employment. That often happens even in new firms whose owners would like to create the working relations on the basis of a definite plan.

An apt illustration is provided by a commercial venture whose owner previously belonged to the county party apparatus. Having drawn the lessons from bad experiences in his former job, the owner tried to regulate the working relations within the new firm only in terms of goal-rationality. One principle was that his colleagues could enter his room at any time without much ado when the operation of the firm required it (even during briefings or while he was entertaining guests, etc.). The frequent and demonstrative emphasizing of this principle, however, inspires the thought that we encounter here an instance of ideologizing. The ideologically and symbolically overburdened working relations of the party apparatus (where the relation between boss and staff is not simply the outcome of a rational division of labour) are reproduced in the private company, the old ideologies being replaced by new ones concerning the market and entrepreneurship. The 'enter the boss's room any time' principle has not been produced by the everyday practice of the private firm but was an expectation derived from the ideology about the running of an enterprise.

2. A part of the ventures launched by intellectuals in particular are organised in terms of the profession. The interpersonal relations within the firm can preserve in these cases their former professional character. That happened in a company of



architects. Despite the growth (financial stabilisation, wide range of commissions) of the enterprise, the former professional hierarchy was not replaced by a new system of sub- and superordination based on decision-making positions in the enterprise. The number-one personage of the firm (its head that is) is still the noted architect who had been able to organise the other colleagues by the strength of his professional prestige. There was no reshuffling of positions in spite of the fact that he is not the executive director of the firm.

Somewhat different are the interrelations within a limited company providing technical services. The Pécs-based firm was formed partly from employees of local firms and partly from teachers of the Technical College of Győr. Each participant is a specialist in a certain field: hardware, elevator control, etc. The division of labour within each branch is along professional lines. Each division is headed by a 'founder'. The relations between them, however, were not restructured to adjust to a new division of labour or to the requirements of the market. The relations are still professional-collegial although in economic efficiency the divisions differ.

Of course, the professional values and relation patterns (collegiality) as the organising principle of the working relations in this enterprise only worked in the upper, managerial echelon. The internal structure of each division was organised by functional (technological, organisational) and not professional criteria.

Let me finally mention one more typical case. A small firm produces furnishing for catering units. Its manager tries to maintain a work organisation structured along professional lines. Any elements that might disturb or modify this structure were omitted from the everyday operation of the firm. Supervision, registration of work hours, calculation of wages and taxes — all that might bring bureaucratic or power elements into the relations — are eliminated in the firm. These jobs having to be done after all, are the duty of every worker. It confirms their emphasis on subordinating all aspects to professional values that the owner runs a vocational training school where a professor of the Budapest Technical University(!) is engaged to teach. The most gifted of the graduates (and not the most obedient or most easily exploitable) get jobs with the firm.

Converting the employment relations into professional or quasi-professional relations in this firm was justified because the furniture items are decorated with high-quality or rare wood carving which requires not only well-trained skilled workers but also talent in carving. The manager runs the small cooperative like an entrepreneurially based wood carving studio.

3. One of the most frequent types of employment relations in entrepreneurship relates back to former cooperation in the second economy. The second economy is characterised by unregulated worktime, flexible division of labour not predetermined by formal positions, and the mixing of friendship, collegial and paternalistic relations. The employment relations in newly arising enterprises can best utilise these types of relations, so these undergo the least redefinition. A good example is a building firm in a village near Budapest set up entirely from people who worked together in the second economy. Young village people got together in a brick-layers team and participated regularly in nearby constructions. The members of the team chose permanent jobs



where they could regularly work together (e.g., being all employed by the fire department where they had extra free days because of the long overtime). In the past 7–8 years the members became permanent and a solid group structure evolved that could be adopted in the private firm (Kuczi–Makó 1993). Apart from the second economy, the structure was promoted by the fact that the people involved were of the same age and living situation, and hence the present employment relations also preserve some vestiges of cohort relations.

Slightly different are those relations that evolved in the second economy but were ‘superimposed’ on the employment relations of the permanent job, modifying the latter at the same time. This type complements that mentioned in section 1.2. There the employment relations among the ‘entrepreneurs’ within a state firm (printers) were moulded by the power, professional and organisational structure of the enterprise as well as the external market possibilities to a certain degree. This structure was necessarily disrupted when the press became privately owned. The case here illustrates a type differing from the above in one decisive point. This type includes examples where the structure of the group involved in the second economy developed independently of the relations in the first economy, in spite of the fact that the group members worked at the same place. Not only are the two structures independent from each other, but the former may even slightly modify the latter.

The example is the following. A few young people in managerial positions in an agricultural cooperative near Nyíregyháza began cabbage production in the framework of household farming in 1975–76. In 2–3 years they multiplied the volume of fresh and sour cabbage. A specific cooperation developed among the private producers, replacing the formal sub- and superordinations and division of labour in their permanent employment with some gentlemen’s agreement. They mutually helped each other in organising the production, e.g., harvesting and selling. As time passed, the relations became asymmetric, but this imbalance derived only from the second economy positions and was only partly, if at all, connected to the status hierarchy of the cooperative. These asymmetric relations can best be characterized by the ‘patron–client’ connection.

In the early nineties all those formerly involved in the second economy business launched private ventures of their own. The interrelations between the firms were practically based on the previously described network. The section leader with the largest capital and influence gave money and ideas to the rest of the group before becoming independent. For instance, he added a car showroom to his other businesses and put a former client of theirs at its helm. The latter became independent later (opening a transport firm) but he is still tied to his patron with a lot of threads. He expressed his indebtedness, for example, by employing his patron’s mother-in-law in his firm. And so on, downwards: the freighter helped his niece with capital to set up a limited company and when the new ‘head office’ of the carrier is ready, the limited company can also move in.

Let us finally mention another kind of relation connected to the second economy. Those involved in the second economy often won their advantages to the detriment of their state jobs, using the materials, tools and worktime of their full-time employment,



often with the tacit agreement of their bosses. This tacit agreement became institutionalised and incorporated in the employment relations, disrupting their formal, rational character. This kind of relationship was reproduced in the private enterprise. Some of the owners assume that their employees work for themselves on the side. To prevent this, some try to employ stricter control, calling the employees to account more frequently, others try to incorporate it in the firm. The head of a venture says that all his employees try to accumulate some capital to set up on their own. The best thing is to let them become owners, he says, but in my firm.

4. It is especially typical of smaller localities that the heads of limited companies and small cooperatives transfer the existing relations within the village or small town into their enterprise. Instead of restructuring the interpersonal relations among the workers along professional or labour division lines, the entrepreneur leaves the formerly developed and respected relations untouched, using them to maintain discipline and control productivity. In short, he exploits the community control of small localities.

The following case illustrates such 'village relations'.

A dressmaker moved his firm from Budapest to a nearby location because in the capital he failed to strengthen discipline. „Sewing-girls in Pest are loud-mouthed”, he declared. In the village workshop the working relations are dominated by the prevalent authority relations and work is organised on this basis. Production is headed by a local dressmaker whose prestige was earned outside the firm and she now applies the authority she won earlier in the village. The relations between the boss and the seamstresses and among the employees were not restructured by the division of labour, by technological principles — the structure remained the same as in the village itself.

In a village near Gödöllő I encountered a peculiar form of adopting the existing social relations of a small locality by private enterprise. The sense of identity and solidarity reinforced by the village and ethnic community, the diligence and reliability legitimating the hierarchy of affluence in public opinion are exploited to the full by entrepreneurs. They use the ready-made, well-working network of solidarity and trust in which they channel money, materials and labour. For example, one entrepreneur carried out a commission requiring much joinery, so he used the cooperation of joiners in the village to distribute the materials, to store, to raise a part of the active capital, to control the quality and to solve the professional problems raised (Kuczi – Makó 1993).

What differentiates this form from the previously described ones is that entrepreneurs not only utilise the existing relations but insist on fostering and strengthening them as well. They largely contribute, for example, to the production of the ideology claiming that people in the given village are more hard-working, reliable, competent and cooperative than those in neighbouring villages. (This is greatly reminiscent of the practice of large companies — it is well-known that enterprises make great efforts to get their employees identify themselves with the firm. In our example, the entrepreneurs try to reinforce the identification with the village and use it as a resource.)

5. Having been in a town or smaller locality for some time, a large company restructures the relations found there to a certain extent. In addition to the neighbourhood and kinship networks, the large company as a structuring agent also



appears. This happened in Székesfehérvár in the case of Videoton (Leveleki 1994). Now the large company has disappeared, broken down into several limited companies, yet a huge mass of relations once established by it survives. People interact within these relations, exchanging information, looking for employees or market partners. These relations are hard to define; they are basically similar to village relations but are less definite, vaguer types, lacking the transparency and continuity of the former, since, with the break-up of the large firm, the network of relations is starting to disintegrate. At the same time, despite its raggedness, this network continues to be the broadest framework for the exchange of trust, information or favours. Certain relation elements remain intact in the torn network. When becoming independent, former managers of the large firm can build up their venture from these elements, importing, for example, the former boss-employee relationship together with all its features of content and style. (This case largely tallies with the type described in 1.3.)

Another option is that the would-be entrepreneur recruits his employees not from among his former immediate colleagues (primarily because his private firm is not to be based on his former work), but from the network of relations formed by the large enterprise. In this case relations often need redefinition.

6. Perhaps the most frequent relations borrowed by a private enterprise are family and kinship relations.

6.1. In a number of private companies there is no sharp line between family and business spheres. Family and business tasks are interlaced. There is some division of labour, but it is incidental who carries out a given job: baby-sitting, household chores, purchase of materials, delivery of finished goods are all performed by those who happen to have time. Normally, grandparents take most care of the children, but when need be, they help with loading, taking messages or arranging matters. The flexibility of family relations are utilised to the full. When work has piled up, there is enough workforce to perform it, and in slacker periods no one has to be laid off.

My observations have shown that starter ventures often destructure the formerly established and allegedly unchangeable family division of labour. Husbands keeping away from household chores for years are only too ready to wash up or look after the children when it is needed. The flexibility of family labour means that the members can, at least in some enterprises, disregard the traditional, rigid division of labour by sex and age.

6.2. In the next step, roles are clearly defined in the enterprise, economic and family roles being sharply differentiated. Yet the effect of family relations can also be felt. I gathered information from the interviews on how the (dominance) relation between husband and wife in the family affects the assumption of roles in the enterprise.

Most frequently, the husband's dominance is transferred to the enterprise as well. In these cases the wife performs 'auxiliary' jobs, e.g., paperwork or takes the hostess role at employers' meetings. The common feature of these roles is that the wife does not participate in the decision-making processes.

There are cases in which the wife has set up an independent enterprise to separate herself from her husband, but the husband did everything to prevent it because he

wanted his wife to work in his enterprise, subordinated to him, thus reinforcing his not too strong position within the family.

It also happens that a wife dominates family life, and this asymmetry also appears in the enterprise. A private joiner's wife does not take part in the 'everyday' life of the firm but checks the income and has the decisive say in major investments. Her decisions are motivated by the household, not by the needs of the business.

A wife's dominant role in the family may also appear in the employment relations of the firm when a husband is practically in employee status.

There are cases, too, in which husband and wife are jointly involved in entrepreneurship, taking decisions together. The wife has a moderating role keeping the husband back from more hazardous steps. Family and business roles are clearly separated, yet at certain points, e.g., deciding on critical issues, the rational economic relations are tinged with family elements.

In sum, it can be stated that in cases where the business and the household are not separated, intra-enterprise relations and decision-making processes reflect the dominance relations within the family.

6.3. Another group contains those cases in which the members of a family enter the formerly established employment network of an enterprise. Relations will usually be redefined. A typical example is a firm set up in the early eighties and having a dozen employees by the second half of the decade. The head of the business then employed his wife as well, but the relation to the new employee was determined by the well-established network — the wife became a 'simple' employee like the rest of the women.

Taking family and kinship relations into an enterprise entails numerous problems, besides its advantages. The main source of difficulties is that family relations are hard to redefine in terms of a rational division of labour. Only those are able to solve the problems raised by the involvement of family relations in the enterprise who can homogenise the family and the rational business-labour relations, e.g., by 'uniting' them in a paternalistic network. This is illustrated by a timber merchant and wood-working industrialist who employed his brothers and their sons and sons-in-law. When you have to give out a lot of money in wages, you should at least help your relatives, he says. In return for this help, he could expect unconditional obedience and fairly strict discipline.

Let me make a final remark in connection with employment relations. In most cases becoming an entrepreneur involves a change in orientation, a revaluation of former relations. Following the dictates of the business, the entrepreneur redefines the family, friendship and former collegial relations. Some formerly insignificant contacts may assume greater importance, some formerly significant ones may decline. This redefinition chiefly increases the importance of relations that can be transferred into the enterprise.

## References

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