

New Trends in Foreign Direct Investment Flows in Hungary

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SUMMARY

FDI flows to Hungary have slowed down in recent years, while FDI outflows have grown significantly. A change in capital flow trends is influenced by the termination of the privatisation process in Hungary. It is still open to interpretations whether the deterioration of the net FDI balance is also due to loss of international competitiveness of the country. Based on surveys on strategic decisions of major corporations, the study concludes that in the period of 2000 to 2003 mostly firm and region specific factors shaped the capital outflows. However, a further deterioration of FDI balance would be detrimental to the development of the Hungarian economy. Sources and sector targets of further FDI inflows in the period directly before and after the accession to the EU are expected to differ significantly from those in the 1990s.

INTRODUCTION

Foreign direct investments (FDI) have played a key role in most Central Eastern European (CEE) economies, and in particular in the Hungarian economy. Their significance is well known to policy makers and the general public: direct investments alongside with other forms of foreign capital add to the stock of capital of the recipient economy, thus lessening the relative capital shortage so typical of all countries in transformation. FDI differs from other types of capital flows since a foreign direct investor – by definition – brings in non-debt creating funds as well as the potential of technological spillover from the foreign owner to the domestic economy. FDI is generally regarded to be a long-term commitment as compared to a portfolio investment which by nature tends to be more volatile (see e.g. Krugman/Obsfeld, 2000).

With this background it is clear why Hungarian decision makers have mostly followed policies supporting the inflow of FDI ever since the change of the political regime after the 1990 free elections. FDI can be supported, among others, by favourable tax climate; but perhaps the most robust policy vehicle has been the choice of privatisation techniques: direct sale of state assets promotes the inflow of foreign funds, in contrast to restitution or management buy-out or voucher schemes.

The Hungarian privatisation policies have used various ways (with the notable exception of voucher-type distribution of

property titles) to bring state property into the private sector, but the main technique applied has been the sale for cash – a method that has naturally proved to favour cash rich foreign firms and funds. Once in the country to acquire former state owner firms, these market players have frequently considered further investments opportunities in the form of 'greenfield' projects. The presence of foreign players in the Hungarian economy from a rather early date has been instrumental in harmonising the domestic business practice with the international standards. A sizable FDI sector therefore accelerates the diffusion of Western type practice in the public administration.

The Hungarian case of absorbing massive FDI into the domestic economy is not unique in the CEE region, although the country as investment target certainly stood out among other economies of comparable size and level of development in the early and mid-1990s. The ownership structure of the corporate sector of Hungary has changed dramatically during the 1990s (see Table 1). The share of foreign owners in the registered capital of the Hungarian economy increased particularly fast in the middle of the decade.¹ The data, however, lend themselves to two different interpretations; the one being that the Hungarian economy has been successful in absorbing foreign capital so intensively; the second, and more sceptical, reading of the facts is that domestic businesses have not been able to maintain or build up their capital base – hence the swift contraction of their relative share in overall capital base of the country.

VIEWS ON CAUSES AND CONSEQUENCES OF CHANGES IN FDI FLOWS

In fact, it is hard to tell if 40 or 50 per cent foreign ownership in the corporate sector is too much, just good or should still be well increased. The Hungarian figures do not stand out as exceptional in comparison to other countries' data on the relative significance of FDI. The stocks of FDI on a per capita basis are, for example, as high or even higher in the Czech Republic and Estonia, Hungary being only the third: in 2001 the corresponding data are USD 2 604; 2 311; 2 311 respectively (UNCTAD, 2002). True, there is hardly any reliable yardstick to go by; international comparisons are of limited value due to methodological ambiguities in comparing such data, and also because should some hurdle rate for 'healthy' foreign ownership exist, that must depend on size, structure of the economy compared, and also on socio-political conditions of the society involved.

Whatever one feels about the fast and seemingly easy penetration of foreign direct capital to the Hungarian economy, the trends suddenly changed at the turn of the decade as a result of changes in key areas influencing capital movements. One of the factors is change in the global climate, namely: the size of FDI flows worldwide declined after a peak in 2001. This factor, however, cannot explain much in itself, as Hungary has had a relatively small portion from world capital flows, while other CEE countries managed to increase their share of worldwide FDI at the same time, indicating therefore that the decline in general supply of capital should not be seen as responsible for what happens to one particular small country, such as Hungary. There is an obvious factor at play: the end of large-scale privatisations in Hungary, while late-comers entered their privatising phase at that very time. The share of privatisation revenues within overall FDI has been well below the 20 per cent ratio in the case of Hungary (reaching practically nil in 2002), but this ratio exceeded 40 per cent in, say, the Czech Republic in 2002, or even 80 per cent in that year in Slovakia.² A certain decline in net capital inflow into the Hungarian economy may therefore be partly explained by the fact that having sold most of the state assets, Hungary will not import much FDI through further privatisation.

Absorptive capacity of a country may also change in time. There are views in the business and research community in the country that the flattening of (and later slight decline in) FDI-type inflows is due to loss of international competitiveness of the country (ICEG, 2003). It is certainly true that wage costs have been radically growing in Hungary during the period of 2001 to 2003: unit labour costs in Euro have grown annually between 10 and 20 per cent in these three years. However, labour costs are but one factor for a firm in its choice of location for a new investment (or for re-investing in an existing one). Studies and market research reveal that the motivations of potential investors are much complex, and include a set of institutional factors (quality of labour force, general infrastructure, efficiency of the legal system and presence of corruption in the country,

market size and the purchasing power of the population).³ Yet, there is an obvious factor that shapes the size and composition of FDI in the Hungarian (and other CEE) economy, namely the capital export of the country. Certainly, in the case of Hungary, this is the most important single factor that explains the sharp decline in the balance of FDI-flows. Year 2002 and 2003 were the very first years of sizable capital export from Hungary, by domestic and also by dominantly foreign owned firms. The current account statistics reveal that in year 2002 the balance of direct capital flows (investment into shares and other equities) stood at EUR 1077 million as the outcome of inflows of EUR 1281 m and outflows EUR 204 m. In comparison, during the 8 month of Jan-Aug of 2003 the final balance is only EUR 273 m as a result inflow of EUR 812 m and outflow of EUR 540 m (KSH, 2003). The year 2003 may go down into economic history as the first year when the country is a capital importer.

MOVERS OF CAPITAL MOVEMENTS: AN OVERVIEW OF CORPORATE STRATEGIES

Is capital export a sign of growing maturity of the Hungarian economy? Certainly the bulk of FDI flows take place among countries of the developed, industrialized 'triad' of the world, and being both exporter and recipient of FDI is characteristic of a more mature economy. Or: do capital outflows signal a decline in the attractiveness of the country? If, for instance, Hungarian companies start exporting capital to neighbouring countries because they find the fast growing Hungarian wages already too high, the answer could well be confirmative.

In this respect it is important to look at the company specific factors of the FDI outflows. The most important source of capital export from Hungary has recently been MOL, the Hungarian oil and gas corporation; market leading bank OTP, the national telecom champion MATÁV, as well as an expanding hotel firm, chemical and pharmaceutical businesses.

The case of MOL is a good illustration of regional expansion. MOL in 2000 paid 270 million USD for the first lot of the shares in its Slovak counterpart, Slovnaft. In 2002, under the second part of the deal, MOL invested a further 360 million USD, increasing its share to a dominating 67.8 per cent in Slovnaft. Next, MOL acquired 25 per cent of Croatia's market leader oil and gas corporation, INA in 2003. These steps have certainly nothing to do with capital flight, they rather represent strategic moves to build up a company that is big enough to compete in Europe, or rather that is sizable enough not to remain itself an easy target for acquisition by much larger firms. One should keep in mind that MOL may be a big company in the Hungarian context but its market capitalisation of about 3 billion USD is being dwarfed by the market value of BP (app. bn 50 USD) or Shell (app. 100

billion USD). It is telling that the annual refinery capacity of MOL is about 11 million ton, as opposed to Austria's OMV of 13.4 million ton, Croatia's INA's 10 million ton, Poland's PKN Orlen's 13.5 million ton, Slovnaft's 5.4 million ton - all too small on their own to withstand competition and acquisition from cash rich Western multinationals or Russian oil giants (Financial Times 2001). Similarly, OTP invested in a medium sized Slovakian bank in 2002 (now Banka Slovensko a.s., member of the OTP Group), and recently acquired a major local bank in Bulgaria. OTP stands out in Hungarian business life as a former state owned semi-monopoly that has been successfully turned into a profit making venture through privatisation and reorganisation under Hungarian management. This bank has followed a cross-border strategy in a region that covers some of the former planned economies as well as Austria (where at present OTP is bidding for a local financial institution).

There are other cases of regional expansion by Hungarian companies, both under local management and firms in foreign property, registered in Hungary and strategically controlled by the foreign owners.⁴ However, these cases of capital exports from Hungary provide only a partial explanation for the deterioration of Hungary's net balance of FDI. In the pre-accession period, a steady increase of inflows could be expected. Other countries in the region (most particularly Poland in the period 1999 through 2002, the Czech Republic in 1999 through 2002, and Slovakia since 2000) have certainly absorbed sizable net inflows, with or without privatisation-linked transactions. Are there still elements of capital flight from Hungary?

A survey of transactions reveals various cases. One such case is that of the multinationals. Some major corporations have received generous tax reduction schemes since 1990 or even before, with a time span extending into the years when Hungary will have been an EU member state. During the accession negotiations in 2002, the EU called for the termination of such investment support schemes, as they do not fit into the Community's policies concerning 'state aid'. A compromise solution reached in December 2002 put a ceiling to the overall amount of tax concessions available for the big foreign investors (thus meeting the demands of the EU), without an abrupt change of the tax regime under which these firms had come to Hungary. As a result, no such major firm declared a termination of its core activity in Hungary.

Yet, certain plants have been closed since that (Mannesmann, IBM) under relocation schemes; new locations are reported to be in the Far East. Whether these and similar moves are a reaction to the less generous tax treatment or they are motivated by other economic trends is hard to tell. Meanwhile Hungary experienced a nominal appreciation of the currency (HUF), and at the same time a two-digit increase of the nominal wage level; the combined effect of those resulted in the steep increase of unit labour costs in EUR or USD - a reason enough to move labour intensive, low value added production east of Hungary (or sometimes east *within* Hungary).

At the same time, new sources of FDI have also been reported. One significant, albeit underreported, source of

foreign capital is the reinvested profit. Since inflows into the Hungarian economy started rather early, a great number of foreign owned ventures have by now entered their profitable life cycle; a part of the profit made will always be reinvested if conditions are deemed suitable. Statistical reporting on such corporate behaviour is notoriously unreliable, but market analysts believe that over half of the profit made has been reinvested here rather than been repatriated.

Small and medium sized enterprises (SMEs) are also among the new drivers of capital inflows to the Hungarian economy. Individually, an SME does not invest much, but their number has been on the increase lately, and their investment activity has intensified in spite of the recent sluggish FDI-trends. The full membership of a present candidate country will further reduce country risk, and at the same time will highlight the investment opportunities among a large number of potential investors - that is in the SME sector.

Finally, a glance at Table 1 reveals that certain sectors have not been so far the target of foreign direct investments: agriculture, health and some other services. The EU membership terminates or gradually phases out previous restrictions for FDI to enter these sectors. One can thus expect inflows of FDI into sectors not frequented before.

CONCLUSION

The dip in net FDI inflows is due to many economic factors, some unrelated to the EU-enlargement process, some - the wage increase, change of the tax code, increased environmental and social standards in industry - are clearly influenced by the accession to the Union. Similarly, capital export from Hungary, mainly to the east and south of the country, is also driven by multiple motives, the most important now being the expansion policies of large to medium sized firms. The fact that Hungary started to privatise the former state owned firms sooner than the neighbours some of them are now in the middle of the process explains why major Hungarian business firms have become active in M&A and privatisation transactions in year 2000 and after. It is probable that the process will continue for the years to come; capital export from Hungary in on the whole laudable.

Yet, this capital outflow coincides with a persistently high trade deficit, budget deficit, and a general worsening of key macroeconomic figures (with the exception of the unemployment rate - until mid-2003). FDI is but part of overall capital flows, and as such should not be relied upon in financing the Hungarian economy. However, the drying up of FDI finance may lead to more reliance on debt-creating funds - a trend not welcomed by the capital market. Higher debts ratios, particularly more government debts do not help Hungary's entry into the EMU, either. Our conclusion therefore is that policy makers should now reconsider priorities: less emphasis on domestic consumption and consumer driven growth, and more attention given to incentives for investment, by domestic and foreign participants alike.

TABLES

Table 1
Share of Foreign Capital in Hungarian Corporations

	Foreign share of owners' equity				
	1993	1994	1996	1998	2000
<i>National average</i>	15,7	18,9	32,3	39,3	42,9
Agriculture	2,4	3,5	6,1	7,1	8,6
Mining	17,8	17,8	36,1	27,8	39,2
Manufacturing	30,9	37,0	52,5	59,7	64,5
Food industry	43,4	48,0	51,4	62,8	59,5
Machinery	36,8	43,8	64,9	64,3	54,9
Electric, water, gas	0,5	0,4	21,7	31,2	27,0
Commerce	22,3	27,8	36,5	45,8	38,6
Transport, telecom	13,8	15,5	23,1	31,0	31,8
Financial services	14,9	19,4	46,6	48,8	56,9
Education	10,0	10,0	14,8	10,5	6,0

Source: Foreign Direct Investment in Hungary. HCSO, 2001.

Table 2
Stock of FDI in the world, the EU and in transition countries
Million USD

	1990	1995	2000	2001
World total	1871,6	2911,7	6258,3	6845,7
European Union	733,3	1115,1	2382,0	2648,7
Accession countries	2,9	31,3	89,4	110,2
Poland	0,1	7,8	33,6	42,3
Czech Republic	1,4	7,3	21,6	26,8
<i>Hungary</i>	0,6	11,9	19,8	23,6
Slovakia	0,1	0,8	4,6	6,1
Slovenia	0,7	1,8	2,8	3,2
Estonia	0,0	0,7	2,6	3,2
Lithuania	-	0,4	2,3	2,7
Latvia	-	0,6	2,1	2,2

Source: UNCTAD, World Investment Report 2002.

Endnotes

- ¹ The content and reliability of such statistics always invite some scepticism. National origin of owners are hard to determine both at closely held and at publicly traded corporations. Certain capital movements such as loans from parent company to subsidiaries are not easy to classify. National agencies differ in as much some of them register as FDI not only cash transfers but also in kind contributions or even further investment promises made. The Hungarian practice has been rather strict in this respect by registering the factual cross border movements of funds into functioning or new ventures as FDI if such funds exceed the 10 per cent share – a hurdle that distinguishes the FDI and the portfolio investors. The Hungarian Statistical Office changed its methodology in 2002, thus later figures are not fully comparable with the figures in Table 1; the message of the table remains, however, clear.
- ² See e.g. *A magyar működőtőke-áramlás alakulása regionális összehasonlításban /Hungarian FDI in regional comparison/*. /3/
- ³ See e.g. a study made by Ernst & Young about motives of German investors in the CEE region. The comprehensive evaluation of companies with investment plan in the region is that Hungary offers the best overall investment climate, followed by the Czech economy, Poland, and finally by Russia. This is in spite of the fact the Hungary got the highest mark only for one factor (the infrastructure), being second or third for other factors. Relative wage costs are seen as the highest, and the limited size of the Hungarian market also puts the country at a disadvantage compared to others. /2/
- ⁴ See our study: *Bod Péter Ákos - Cséfalvay Zoltán: Tőkeáramlás a Kárpát-medencében*. /1/.

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Zusammenfassung

Der direkte Kapitalimport nach Ungarn hat abgenommen, während der Kapitalexport in letzter Zeit erheblich zugenommen hat. Die Umkehrung des Trends hängt mit dem Abschluss der Privatisierung zusammen. Fraglich ist aber, ob die Verringerung des Kapitalimports keine Ursache für die Schwächung der wirtschaftlichen Konkurrenzfähigkeit ist.

Der Aufsatz demonstriert auf Grund der strategischen Entscheidungen der Großunternehmen: die Kapitalexporten wurden von unternehmensspezifischen und regionsspezifischen Faktoren in den Jahren 2000-2003 beeinflusst. Die weitere Verringerung des Kapitalimports ist aber vom Standpunkt der Entwicklung der ungarischen Wirtschaft nicht wünschenswert. Die Quellen und die Zielsetzungen des unmittelbaren Kapitalimports sind in der unmittelbar vorausgehenden oder auch folgenden Periode des EU-Beitrittes teilweise andere als sie in den 1990er Jahren waren.

Összefoglaló

A magyar gazdaság közvetlen tőkebeáramlása lassult, a tőkeexport erőteljesen megnőtt az utóbbi időben. A trend megváltozása összefügg a privatizáció folyamatának lezárultával. Kérdéses azonban, hogy a tőkeimport mérlegének romlása nem oka-e a gazdaság versenyképessége gyengülésének. A tanulmány nagyvállalatok stratégiai döntései alapján bemutatja: a tőkekiáramlást vállalat-specifikus és régió-specifikus tényezők formálták 2000-2003 során. A tőkemérleg további romlása azonban nem kívánatos a magyar gazdaság fejlődése szempontjából. A közvetlen tőkebeáramlás forrásai és cél-ágazatai az EU-csatlakozást közvetlenül megelőző és követő időszakban részben mások, mint voltak az 1990-es évtized során.

Keywords: Central Eastern Europe, FDI, mergers & acquisitions, EU accession

Does it Really Make a Difference? On the Cultural Characteristics of Service and Production Companies

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SUMMARY

The study intends to analyze the validity of the hypothesis whether production and service organizations differ significantly. First a service management approach is introduced. The significance of service organizations in business is proved. Further on the study analyzes the problems of comparison between production and service firms.

In the second part of the study, results of an empirical research are shown. The survey deals with the culture of 106 organizations. Six dimensions of comparison are used for cultural analysis: role of the leader, employees, strategy and culture, structure and co-ordination, organizational climate, national cultural background.

The results show significant difference in all dimensions of organizational culture between service and production firms. Third group of organizations, namely public service companies, seems to represent a third significant cultural group. As a conclusion it can be said that the hypothesis is valid: there are major differences in the culture of service and production companies.

INTRODUCTION

The objective of the article is to give a response to the validity of the question whether the organizational culture of service and production companies shows great differences or not. In order to analyze the question the theoretical background was examined. Then the hypothesis was tested on a sample of mainly Northern-Hungarian companies and organizations to see if there is a validity of further research concerning other characteristics. The authors regard the location of the sample as well-focused, since the particular region (i.e. Northern-Hungary) has been acknowledged as a traditionally production driven culture. Therefore, if our hypothesis is correct, a significant cultural change is under way in the region.

THE EXPANSION OF SERVICE ORGANIZATIONS

If there is a labor intensive activity then service is a typical example. Moreover, what distinguishes one service from another is the level and quality of the human input. The challenge for all service providers is that they cannot handle

customers as part of the 'faceless crowd' (except for the so called service factories like McDonalds). It is no coincidence why the staff of service organizations has to be trained and developed the most. It is because the staff of such organizations is in constant contact with the customers. On the one hand it is an interesting human relation and on the other hand the most challenging task to work up to the expectations of the 'moments of truth' all the time. The fast development of the service sector since the seventies is the same situation like, when the productivity of agriculture reached the level that masses of workers became free and then became occupied in industry. In the last decades the efficiency of production (and the mechanization) has developed so much that a significant amount of production labor became free for other activities. The parallel is naturally not perfect, since the interrelation is more complex than that between the different sectors of the economy. Agriculture has developed so fast because its mechanization had drastically improved (Normann, 1995, p.1). Despite the fact that many still consider services as of secondary importance to the economy, the fact of the matter is that regardless of the firms' production- or service-orientation, they have to face the constantly fierce competition of the service economy. (Grönroos, 1988.).

SERVICE AND/OR PRODUCTION COMPANIES

The definition of services is not as simple task as one might think, as soon as we get away from the traditional approach. Schmenner (1995, p.1.) goes as far as arguing that it is easier to define what could not be considered services than what could be. Traditionally we view hotels, restaurants and garages, places of entertainment, such as cinemas and theaters, and places of health care, such as hospitals and private clinics as services. Professional (mind ware) services like, engineering, legal and taxation consulting offices, insurance and the real estate sector and education fall into the service category as well. We also consider wholesale and retail trade, transportation and logistics to be services. Despite the relatively broad sense of the service category, in many cases the situation is less than clear. Public service companies are taken as service organizations, whereas an electricity company "produces" electricity and then distributes it through its network, which is far more capital intensive than most of the activities of the production companies.

A plain demonstration of the dilemma is the case of IBM. After the decline and cloning war of the eighties it redefined its activity and transformed itself from being a desperate straits device producer into a leading service company (Hamel, 2001). Had it not done so, IBM may not have been on the market anymore.

The case of GE is just as valid: from being one of the world's industrial giants, it developed into a corporation which earned more than 50% of its income from financial services in 2000.

Grönroos (1990., p.3.) also argues this duality of production companies, when most of them have to include a series of services in the production package to remain competitive. A state-of-the-art technological development does not provide a competitive advantage any more. To focus the question further: anyone can produce products. It is just not enough any more. Competitiveness derives from the services one can offer in the package jointly with the product: technical services, repairs, maintenance, training of customers, consulting, delivery etc.

This train of thought leads us to the phenomenon of what is called 'hidden service sector'. According to the definition, much more service is being produced than recorded and registered. A significant part of services is produced by production companies (Evans and Berman, 1987, p. 618.).

COMPARISON OF SERVICES AND PRODUCTS

The comparison of services and products has always been a focal point in the service management literature. Very few authors miss the opportunity to prove the equal importance of services. The need for the defense may arise, since a false superiority is attributed by many authors to production. However in many organizations it is rather challenging to separate the two. Most of the activities of traditional production companies are product- related services.

Low prestige services exist indeed. But the opposite is also true. Low prestige services are the ones that:

- were traditionally performed by individuals granted lesser status when they were part of the informal economy
- everybody claims to have expertise in and knowledge of (however not always correctly)
- require employees with lesser formal education and
- are considered "dirty" work or necessary evils.

This category includes activities like cleaning, kitchen work and child care. These are the services traditionally carried out by women, and which everybody claims to have expertise in. We tend to underestimate people performing these services. The activities in the fourth category mentioned above are other services like security, sanitation and waste disposal, which we consider dirty but necessary (Normann, 1993, pp. 11-12.).

The characteristics of services mentioned above are summarized in Table 1., which also demonstrates the comparison with the same characteristics of products.

*Table 1.
Differences between Services and Physical Goods
(Grönroos, 1990, p.28.)*

Physical Goods	Services
<i>Tangible</i>	<i>Intangible</i>
<i>Homogeneous</i>	<i>Heterogeneous</i>
<i>Production and distribution separated from consumption</i>	<i>Production and distribution and consumption simultaneous processes</i>
<i>A thing</i>	<i>An activity or process</i>
<i>Core value produced in a factory</i>	<i>Core value produced in buyer-seller interactions</i>
<i>Customers do not (normally) participate in the production process</i>	<i>Customers participate in production</i>
<i>Can be kept in stock</i>	<i>Cannot be kept in stock</i>
<i>Transfer of ownership</i>	<i>No transfer of ownership</i>

The production vs. the service process

Admitting that in many management aspects production and service processes can be handled similarly, we would like to draw attention to some differences:

1. Most production strategies are useless in case of services, mainly because of the fact that services cannot be stocked.
2. The differences of the management and leadership aspects.
3. The intangibility of services causes natural differences compared to the well-known methods of marketing and logistics.

4. Most of the services can be described as an activity and interaction, thus a kind of social event. The control and management of such events call for a different set of leadership skills and abilities.

5. The role of the customer changes as well by being part of the service process, usually not in a passive way. Therefore his/her expected behavior and acts should be considered in the planning and subsequent stages of services.

5. **Organizational climate:** informal relationships, out-of-work relationships, level of trust, level of mutual loyalty, ceremonies and rituals.

6. **National culture:** universalism vs. particularism, monochronic vs. polychronic cultures, feminine vs. masculine scores, individualistic vs. collective society, performance vs. ascription.

ANALYSIS OF THE RESULTS OF THE RESEARCH QUESTIONNAIRE

Structure of the questionnaire and methodology

The research questionnaire was constructed within the frame of a comprehensive OTKA-research¹ and is based on the chapter examining the organizational culture. The chapter is divided into 6 question groups and contains a total of 40 statements. The statements are to be qualified on a scale ranging from 1 to 7 depending on how much the respondents agrees with the content of the statement (1: *I do not agree with it*, 7: *I totally agree with it*). One of the purposes of the questionnaire is to explore the differences among the companies of the production, the service and the public sectors. In this phase of the research we have analyzed 106 organizations on the basis of the questionnaires returned to us. We used the 'expert opinion-method' in the course of the research, so we cannot form a real notion of the culture of the individual companies, we can only draw an overall picture of the branches of economy. The structure of the sample was the following:

- > 50 companies from the production sector,
- > 12 companies from the public sector,
- > and 44 companies from the service sector.

The question groups examining the organizational culture were the following:

1. **Personality of the leader:** culture-forming and shaping role of the leader, representation of the employees, representation of the interests of the group, sources of leadership credibility.
2. **Employees:** typical behavioral norms, motivations, criteria of individual success, transfer of norms and scores, clan vs. competitive organizational culture.
3. **Strategy and (organizational) culture:** strategic consciousness, application and acceptance of strategic methods, evaluation of the social and market environment, acceptance of change.
4. **Structure and co-ordination:** organizational adaptability, methods of decision-making, technology and standardization, rules and procedures as cultural elements, information and power.

Question group No. 1: The Leader

The first group of the questions examined the cultural influence of the leader. The scores of the answers were between 3.58 and 5.92. Both of the extremes appeared in the public sector. The statement "Successful leaders in the organization are professionally competent, effective and their loyalty for the organization is strong." achieved the highest score of the group; within this the score of the public sector was the highest.

Within the 6 statements, the lowest scores were in the production sector in five cases: the leadership style is the least employee-friendly here. The leaders in this branch were evaluated as the least fair, loyal and task-oriented. It is also interesting to note that the level of loyalty between the leader and the employees, as well as between the leader and the organization, was also the lowest production companies. The highest scores generally appeared in the public sector, except for the question dealing with the issue of authority and command, which was the most strongly linked with the professional skills mainly in service companies.

Question group No. 1 (Leader)

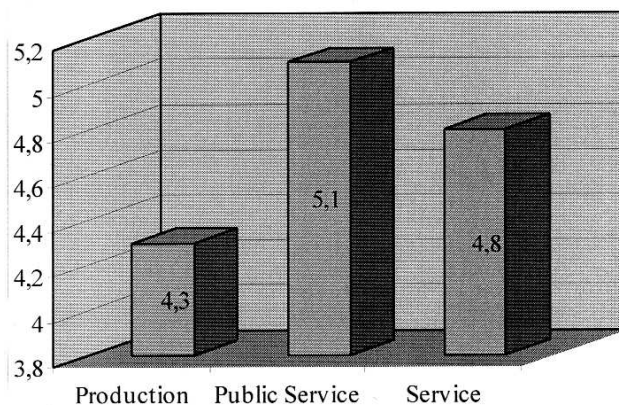


Figure No. 1

Question group No. 2: The Employees

The results of this question group have showed fairly large differences: the scores of the branches were between 3.31 and 5.92. The highest score was reached by the public sector in the case of statement No. 2: "The good employee is

¹ The research has been a part of the research "A Complex Study of the Factors Influencing the Efficiency of Strategic Control in the Mirror of Globalization and Regionality", which is carried out at the Institute of Management Sciences at the University of Miskolc, supported by OTKA.

internally motivated and works for the best of his/her knowledge. His/her individual development is fundamentally important for him/her, (s)he accepts others' help and learns with pleasure." For the first question which deals with the approach to work and the organizational loyalty of the employees, the best score was also in the public sector.

We can find the lowest score in the production companies for statement No. 6: "The organization is a very friendly place, it is like a big family. Everybody helps and support the others."

The strongest competition and the measurement of staff performances, as well as the acceptance of the disparity of performances could be seen in the service sector.

The statement about the respect of employees has the lowest score in this group in the production sector. The best results of this group could be found alternately in the public and service sectors: in the public sector the basic value is the tradition, in the other branch the most important value is competition.

Question group No. 2 (Employees)

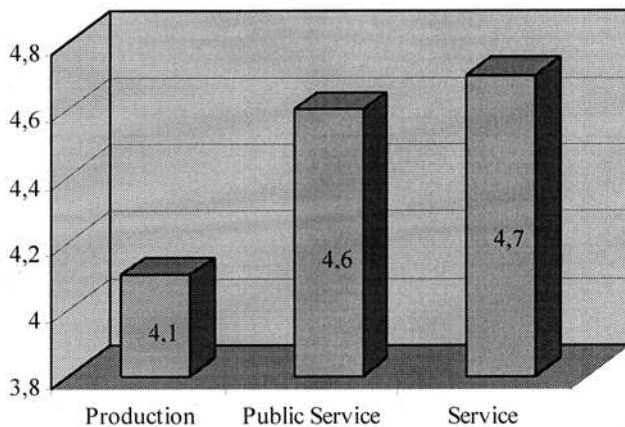


Figure No. 2

Question group No. 3: Strategy and Organizational Culture

The lowest average score of the questionnaire resulted in this group of questions, namely in the public sector, for question No. 5, which reads as follows: "Market- and competitor-analysis is part of the organizational strategy". With this statement the representatives of the public service sector disagreed so much that they evaluated it as low as 1.375. It is very interesting that also this sector gave the highest result in connection with the adaptability of the market- and social environment. The lowest score for this question was in the production sector. The service companies reached the highest scores associated with the use of the strategic planning tools and in the daily routine of implementing the strategy.

The degree of predictable changes happening in the environment was the lowest also in the public sector, while it was the highest in the service companies.

Question group No. 3 (Strategy-Culture)

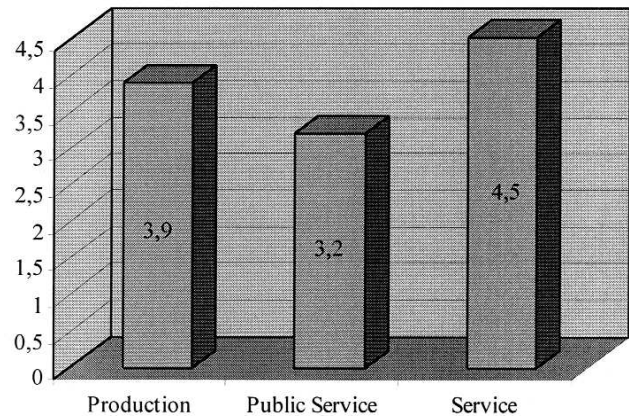


Figure No. 3

Question group No. 4: Structure and Co-ordination

Among the 7 statements of this group the production companies reached the lowest scores in 5 cases referring to shared decision-making and information sharing. The statement "The communication is mostly selective, people often give or keep information back as a mean of control."- had the highest score also in this sector. Because of the inverse logic of this sentence we could evaluate it as an inverse score. Surprisingly, the degree of standardization demanded by the technology was also the lowest here.

In this group of questions, examining the adaptability of the structure in the daily routine, service companies reached most of the highest average results. It means that their working and decision-making processes are more democratic than those of the public companies and much more democratic than in the production sectors. So obtaining information is also easier at lower levels of the organizational hierarchy in service companies than in production companies.

Question group No. 4 (Structure Co-ordination)

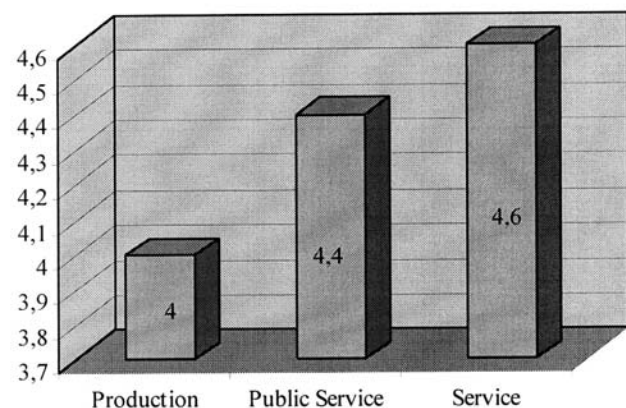


Figure No. 4

Question group No. 5: Organizational Climate

In accordance with Question group No. 2, which is about the level of care for the employees, the lowest result was scored also in the production sector. All of the 6 statements had the lowest scores here: regarding mutual loyalty between the organization and the employee and also at the level of informal, friendly relationships. The espoused values of the company are not known or clear. The latter statement reached the highest score in the public sector, while the most pleasant organizational climate and the best informal, friendly relationships appeared in service companies.

Question group No. 5
(Organizational Climate)

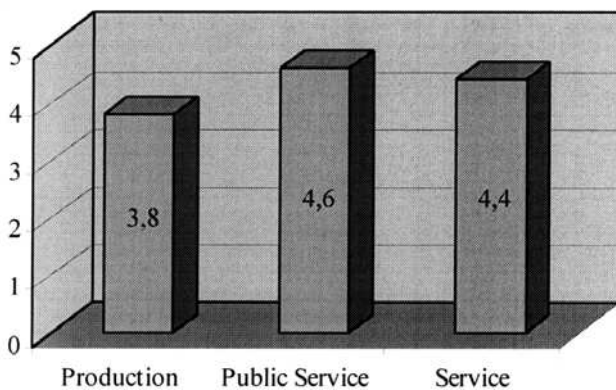


Figure No. 5

Question group No. 6: National Culture

The last question group examined how far the national cultural background influences the behavior of the employees at the workplace. Because of the character of this group the least significant differences could be shown here, since the national level was dominant and not the organizational one. One of the most important questions was about rules vs. organizational efficiency: the production companies were the most flexible and the public sector was the most bureaucratic in this respect. That is why it is not surprising that the same sector (i.e. public) reached the highest monochronic average result in connection with keeping deadlines and working to schedules.

The appearance of these opposite poles is very interesting to observe along the masculine vs. feminine scores. The public companies were thought to be rather masculine organizations, while the difference between men and women was the least in the production sector. The role of innovation is set the highest score by the service sector and the most flexible (i.e. polychronic) working rhythm was also the most typical here.

The following Figures (Figures No. 1-6) show the comparative results of the questionnaire according to the production, public and service sectors.

Question group No. 4
(National Culture)

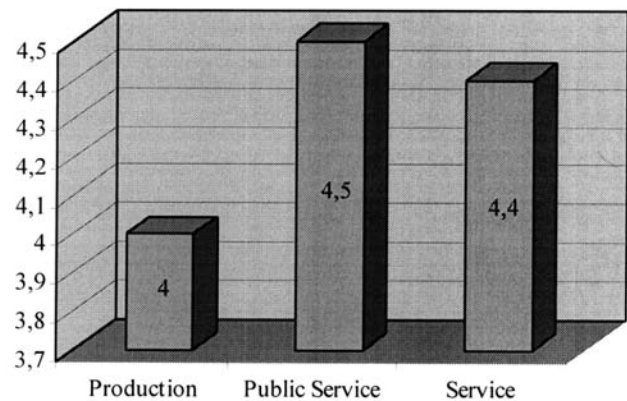


Figure No. 6

CONCLUSIONS; FURTHER RESEARCH DIRECTIONS, OPPORTUNITIES

On the basis of the analysis of the results of the questionnaire the following could be argued:

- It is worth continuing the research in the examined sectors: significant differences are shown between the organizational cultures of production and service companies. This relevant variance has appeared sharply in all of the 6 question groups.
- Comparing culture in the production and the service companies we can say that in the production sector the role of the leader is less caring, the level of informal relationships is lower, the organizational climate is not so friendly (lack of readiness to help and climate of intimacy) and the employees keep information back because of retaining power.
- Internal competition is very strong in the service companies: it does not create an unfriendly climate, but motivates people. These companies use mainly the strategic methods analyzing their environment and the mentality - accepting naturally the changes arising from it - could be built into the culture.
- There are significant differences between the public and the production/service sectors. A culture appears, which lives along (much) more traditional values. It raises the question: whether a real cultural change has taken place in these companies since the change of the economic and political system or not. On the one hand we can find here the most positive results in several question groups (the culture-forming role of the top leader, organizational climate, etc.), on the other hand, there is the monopoly or quasi-monopoly market situation of the organizations. Although they consider the market- and social environment suitable for their work, some of the methods of strategic planning are completely lacking in their practice. In spite of this these companies find the changes taking place in their

environment the least predictable....This, at least as a hypothesis, assumes the constant faith in '*omnipotence of the state*'.

➤ As we can see, it is necessary to use further classifications and new points of view for examination. We assume that the organizational size (according to the number of staff) and the geographical location of the organizations can also serve as influential factors.

Our study summarizes the present state of the organizational cultural analysis which is being constructed as a chapter of the complex OTKA-research as mentioned

above. Therefore we do not consider these results permanent, but we think that the initial analysis is useful for outlining the future investigating points of view. Data processing is especially required at this stage of the examination, because the questionnaires will be followed by in-depth interviews according to the methodology of the research. This is particularly important from the point of view of culture: the '*expert opinion-method*' can be considerably refined by the results of the qualitative methods in the case of the informal picture of the organization.

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Zusammenfassung

Das Ziel der Studie ist, über die Gültigkeit der Frage zu entscheiden, ob man tatsächlich andere kulturelle Charakterzüge bei den Dienstleistungs- und den Produktionsorganisationen beobachten kann. Zwecks der Prüfung dieser Frage haben wir zuerst das theoretische Rahmensystem des Service Managements untersucht, dann haben wir diese Organisationen längs verschiedenen Dimensionen miteinander verglichen.

In dem zweiten Teil der Abhandlung haben wir unsere Hypothese als Ausgangspunkt anhand eines Musters von 106 Organisationen vorwiegend aus Nordost-Ungarn darauf geprüft, ob es sinnvoll ist, unsere Forschung in dieser Richtung weiterzuführen, und/oder eventuell andere Gesichtspunkte in Betracht zu ziehen.

Im Rahmen des kulturellen Vergleichs haben wir sechs Dimensionen angenommen:

- > die Rolle des Leiters/der Führungsebene
- > die Angestellten
- > die Strategie und die Kultur
- > die Struktur und die Koordination
- > die Organisationsklima
- > der nationale-kulturelle Hintergrund.

Durch die Forschung konnte es nachgewiesen werden, daß es zwischen den Dienstleistungs- und Produktionsorganisationen in allen Dimensionen wesentliche Abweichungen gibt. Von dem kulturellen Standpunkt aus mußten die öffentlichen Dienstleistungsorganisationen getrennt werden: sie zeigten besondere Züge im Verhältnis zu den anderen zwei Gruppen. Unsere Hypothese hat sich als wahr erwiesen: wir haben die Erfahrung gemacht, daß es wesentliche Unterschiede zwischen den Kulturen dieser Organisationen gibt.

Összefoglaló

Az írás célja, hogy eldöntse legalább annak a kérdésfeltevésnek a jogosultságát, hogy valóban más szervezeti kulturális jellemzők figyelhetők-e meg a szolgáltató vállalatoknál, mint a termelő szektorban működőknél? Ezen kérdés vizsgálatára először a szolgáltatás menedzsment elméleti keretrendszerét vizsgáltuk meg, majd a termelő és szolgáltató szervezetek összehasonlítása történt meg különböző dimenziók mentén.

A tanulmány második részében egy főleg észak-magyarországi vállalatokból, szervezetekből álló 106 elemű mintán teszteltük a hipotézist kiindulásként, hogy van-e értelme tovább folytatni a kutatást ebben az irányban, más jellemzőket is figyelembe venni. A kulturális összehasonlítás alapjául hat dimenziót használtunk: a vezető szerepe, vezetettek, stratégia és kultúra, struktúra és koordináció, szervezeti klíma és nemzeti kultúra. A felmérés alapján mind a hat dimenzióban jelentős eltérések észlelhetők a szolgáltató és termelő szervezetek között. Kulturális szempontból külön kellett választani a közszolgáltató vállalatokat, minthogy a másik két csoporttól nagyon eltérő jellemzőket mutattak. Hipotézisünk helyesnek bizonyult, a termelő és szolgáltató szervezetek kultúrája között jelentős eltérések tapasztalhatóak.

Social Policy in Central and Eastern Europe (CEE) in 1990s

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SUMMARY

One of the major accomplishments of the socialist systems of Central and Eastern Europe (CEE) was the relatively equal distribution of income they attained. The social policy was characterized by "cradle-to-grave" state paternalism. The transition to market economy is virtually certain to lead to higher unemployment and some what greater income inequality. There were four interrelated social policy problems during the transformation of (CEE) : a. the employment problem for citizens to find secure and durable employment and income; b. the business problem, where firms can no longer rely on soft budget constraints and thus must abundant their direct social welfare functions; c. the budget problem of unburdening the state from price subsidies, which means rising consumer prices and declining real incomes and; d. the labour market problem resulting from privatization and the need for the developing new and specialized social policy institutions This required the reform of social policy: a redefinition of the social safety net, in essence an "unbundling" of the economic and social roles previously assigned to enterprises.

This reforms had to extend to comprehensive transformation of the large distribution systems (pension, health, education, housing, social benefits), reduction of social benefits according to the need and partially providing services in the market economy. There was consensus in CEE that the reform due to their inner shortcomings and to condition of their economy is unavoidable and indispensable. But the success of the reform needed proper concept of it and addition to this the success of it depended on starting up of the sustainable economic growth of their economy. The concept of reforms is rather well developed and commonly accepted in every countries of CEE, but the implementation of it is in very different stage. Therefore first we outline the concept of the reforms and after that we present what has welfare, social policy reform achieved.

Brief overview

One of the major accomplishments of the socialist systems of Central and Eastern Europe (CEE) was the relatively equal distribution of income they attained. (See Table 1) Low income inequality stemmed primarily from guaranteed employment and low wage differentiation in the state sector, as economic and social goals were often combined in socialist firms. The social policy was characterized by "cradle-to-grave" state paternalism. Government's social protection role consisted primarily of administering state-run pension systems, and generous programs of sick and maternity pay, and providing welfare benefits to marginal social groups, such as single mothers, the handicapped, and the chronically ill (including alcoholics and drug addicts). Such a benefits were often provided in kind (such as hot meals, home nursing care, or cloths), as frequently happens with charities in market economies. Cashbased welfare systems were not well developed. Firms took an active role in providing social services to employees, they had a social role, a "duty" to provide employment to alleviate social problems in their respective regions.

The transition to market economy is virtually certain to lead to higher unemployment and some what greater income

inequality. This required a redefinition of the social safety net, in essence an "unbundling" of the economic and social roles previously assigned to enterprises. The main objective of the enterprises should be efficient production, which not only generates economic growth but also protects existing jobs and creates new ones. Governments should be responsible for protecting vulnerable groups – whether the unemployed, the elderly, disabled, or others let out of the productive economy – and providing (directly or indirectly) basic social services such as health, housing and education. Individuals should in turn be responsible for finding jobs (with some assistance from the state) and keeping them through satisfactory performance. (A. H. Gelb and C.W. Gray 1991)

In the first stage of the transformation of the economies of (CEE) there was deep economic crisis creating huge budget deficit and high unemployment (J. Campell 1992). The economic crisis and budget deficit of the government meant that it no longer could maintain, finance and provide basic proper social services. Neither were local governments prepared to assume these functions, nor were there any independent social organizations that could substitute the public provision of basic social services to a significant extent. (C.Offe.1992.)

There were four interrelated social policy problems during the transformation of (CEE) : a. the employment problem for citizens to find secure and durable employment and income; b. the business problem, where firms can no longer rely on soft budget constraints and thus must abundant their direct social welfare functions; c. the budget problem of unburdening the state from price subsidies, which means rising consumer prices and declining real incomes and; d. the labour market problem resulting from privatization and the need for the developing new and specialized social policy institutions.

Table 1.

Country or region	Gini coefficient
Hungary	24.4
Poland	24.3
USSR	25.6
China(urban)	23.9
(rural)	23.1
Czechoslovakia	20.7
Yugoslavia	32.1
Eastern europe	25.4
Latin America	49.5
South Asia	42.8
Asian NICs and Japan	38.3
Western Europe	31.4
United States	32.6
Sweden	20.5
Norway	24.3

Source: Milanovic (1990)

Source: (A. H. Gelb and C.W. Gray 1991)

(The Gini coefficient is a measure of inequality that can be derived from the cumulative distribution of income across the population, ranked by their income level – so called Lorenz curve. It is defined as half the mean difference between any two observations divided by the mean.)

These aspects of the economic transformation process and four interrelated social policy problems, necessitated three, but consecutive steps in social policy-making in post-socialist countries of (CEE) Europe. However, the urgency and sequences of them often resulted in their taking place simultaneously in these countries: a. emergency measures; b. institutional building and reforms plus, c. adjustments within established institutions. (V. Pestoff. 1995)

The social policy system needs to meet four basic requirement: a./ strengthening its role as a defense against poverty, b./ rising the quality and equity of social programs, c./ ensuring financial sustainability of the system d./ restoring incentives.

Social policy includes: 1./ social income in cash (old age, survivors and disability pensions, sick pay, family allowance, maternity and child care allowances, student scholarships, social assistance, and unemployment compensation), 2./ social income in kind (health service and pharmaceutical subsidies, social services, education and training, other

subsidies such as culture and sports, and labor market services), together with 3./ housing and other consumer subsidies.

This reforms had to extend to comprehensive transformation of the large distribution systems (pension, health, education, housing, social benefits), reduction of social benefits according to the need and partially providing services in the market economy. There was consensus in CEE that the reform due to their inner shortcomings and to condition of their economy is unavoidable and indispensable. But the success of the reform needed proper concept of it and addition to this the success of it depended on starting up of the sustainable economic growth of their economy. This growth could provide such resource which could stop the unjustly deterioration of the welfare system and which were needed for improving this system. Without sustainable economic growth countries of CEE are not able to reform their welfare system according to the requirement matching to the Western European standard and for lack of this growth they can slip back into the condition of under developing countries, what would mean that the real and effective reform should have to postpone for long time.

The key issues for the design of welfare, social policy reform were

- how to improve the efficiency of existing social programs so higher level of welfare is gained from a given level of expenditures, and
- how to target the reduced expenditures to ensure that while some individuals experiences lower transfers no one put at risk of poverty or undue hardship.

It was very hard to solve these issues and to give positive answer the questions raised by these issues.

What were the priorities what can be set up? They were the followings:

- the growth of total pension outlay to be curtailed through tightened eligibility;
- structural reform of sick pay, family allowances and maternity child benefits and housing subsidies to reduce their share of expenditures and to improve targeting;
- an increase in the level of social expenditures devoted to unemployment support and social assistance;
- marginal increase in the share of GDP allocated to health and an expansion of enrollments in secondary and higher education; it is low in international standard as well and it is a good investment to improve the so called human capital, resources.

The requirements and goals listed above have been partially met and achieved. The result varies by country by country depending on their development levels and realized economic growth. Here we summarized the common features of the social policy of CEE by focusing on the main elements of the social policy. *The concept of reforms is rather well developed and commonly accepted in every countries of CEE, but the implementation of it is in very different stage.* Therefore first we outline the concept of the reforms and after that we present what has welfare, social policy reform achieved. We start with the pension system.

Reform of the pension system.

Pension system is one of the basic elements of the social policy. The society, the state has to step in dealing this question because

- who has money, income but do not save for old age, spends it, there is an imperfect market in this case due to big risk which forces the market oriented insurance companies to charge high fee what a lot of people can not afford to pay, and also a hyper inflation can wipe out the value of saving,
- a lot of people do not have money, income to save for old age, in all these case society has to pay the price, they become burden on society.

Therefore a proper system has to be developed in order to minimize the risk of this burden. That is the basic function of the pension system.

The state sponsored pension system started to develop at the 19th century in Germany by initiative of Bismark basically as a major part of social protection system. From that time a very elaborated and complex pension system has been created, especially in the developed industrialized contraries. But in all countries of EEC, it had problems and it had to be improved. The main issue was how much role that state and the individual should play. But there was a consensus, that a more transparent combination of three distinctive pillar is needed for old age security to meet *two basic objectives, that is the saving insurance objective and the redistribution objective. One pillar can not fulfill both requirements.* The reason of this that the design of every pension system consisting of both public and privately providing management activities has a built in conflict of interest

- to save money for retirement and
- to provide floor to be placed below everyone's living standards in retirement regardless of what actually earned and contributed.

One form of this multipillar arrangement could be

- a Citizen's Pension providing more or less flat benefit to those who reach old age, it is a minimum pension for servicing,
- transparently earnings related mandatory retirement saving plan,
- voluntary pension plan.

How can the existing mandatory pension scheme be reform?

The main policy should be what could enable the existing pay-as-you-go (PSYG) scheme to survive well into the 21st century without becoming an intolerable burden on public finance.

There can be three actions what can be taken

- increasing the effective retirement age
- broadening the tax base, that is taxation of the pension as well
- changing the indexation such a way what creates saving in the pension expenditures.

Addition to this there is a need to create a new system

- a flat citizen pension, for example, universal benefit provided past at 65,
- a new second pillar what will be still mandatory, but it should offer a clearer link between one own actual

contribution and return obtained in this scheme. It can be less generous than the system what exists now. It can be arranged on base of PSYG, that is where the annual contribution revenues are equivalent to the annual pension spending and on base fully funded, it accumulates assets the value of which is equivalent to all outstanding pension liabilities, but it needs a development of capital market and effective regulation.

The design and implementation of a well articulated transition from a public PSYG system to multipillar system lie at the core of successful pension reform. The new system should be able to generate some efficiency gain, even in transitional period and at the same time prove acceptable from fiscal point of view.

The speed of the reform also has to be taken into consideration. There can be two main strategies, an excessively gradualist one and an accelerated variant. Both has advantages and disadvantages which has to be examined before decision is made regarding to which is going to be chosen.

One of the most urgent social issues in CEE is the reform of social protection against the risks of old age and invalidity. In CEE until 1990 only the single pillar, pay as you go (PAYG) option existed. All government of the countries have declared their readiness to transform the existing single pillar systems into three pillar systems as recommended by the World Bank, IMF, EU Commission. However, the practice more than ten years of reforms shows how difficult it is to implement them. As observed in most of the countries, old age pensioners and invalids constitute a significant electoral group with an easily identifiable aim. This makes the issues of pension reform, - as the whole social policy reform too - highly political and dependent on electoral cycles. Furthermore, system reform requires at least one generation before achieving its full effects.

The first concrete step towards a three pillar scheme was taken in Hungary in November 1993 with passage of the Act on the Voluntary Mutual Benefit Funds. It regulated the optional retirement saving addition to mandatory national PAYG scheme. People, usually high earning white collar mainly middle age people are using this scheme. It is not mandatory, voluntary, that is saving oriented and using the resources efficiently. The state supports it by preferenced tax treatment, but it has to be regulated in order it be safe, some risk be avoided. However this system is yet not well developed.

The real challenge on modernizing the Hungarian pension system lies in the choice of the second pillar, it has to solve the present problem, crises in the Hungarian PSYG scheme, that is the problem of unemployment tax evasion and early retirement.

One of the special problems in the Hungarian System is the high system dependency ratio. (It is the number of pensioners, including under retirement age disability pensioners divided by number of contributor to the pension funds.) It was 0,66 in 1993, one of the highest in the world, in 1990 it was 0,50. It rises when formal sector jobs are lost, because activity cease or it goes underground and evasion

occurs, pensions are awarded to those under 60 for man and 55 for woman, explosive growth of new disability pensions takes place (for example in 1993 27% of all pensioners received benefits originally awarded in disability grounds,) it is largely a function of soft lay off to escape from unemployment position.

All these could have led to unsustainable expenditure. To avoid this Hungary has introduced the three pillars system (in 1996) and has increased the retiring age (in 1996) and the funded pension component was introduced (in 1997). Although the reform is not complete yet, new pension laws have been put in place.

The Czech Republic and Latvia have followed the Hungarian approach, in the other countries, so far there has been much debate but little change in the policy. This lack of action can be dangerous because, in many medium term projection in many medium show that the present arrangements are not sustainable.

Reform of the health system.

EEC has an unfavorable health status. (For example a Hungarian man aged 45 can expect to live nearly six years less than his Austrian counterpart. Life expectancy at birth in 1991 was 65.1 in, not significantly better than in the late 1920s, and 72.6 in Austria, in the early 1960s both countries figure was around 67. In Russia, male life expectancy declined by six years between 1989 and 1994) That scandalous statistic suggests avoidable human tragedy on a massive scale, and huge economic costs, through foregone output and intensified catastrophic health care needs. It can be attributed to

- > unhealthy lifestyles, overwork and related stress and occupational and environment hazards,
- > CEE's health system has failed until recently to evolve in response to these needs, building perhaps on the false assumption that medical care alone, without corresponding changes in individual behavior, would solve all or even most of the problem of deteriorating status,
- > poor quality of health care.

They are the main reasons of a need for reform of health care system.

EEC's health system faces three major challenges today

- > to reverse the declining trend in life expectancy
- > to improve the standards of services offered to the public and
- > to maintain the almost universal access to service.

These objectives must be attained in an environment of greatly restrained financial resources. Therefore the key focus of health reform must be on reallocation within enveloping to obtain improved outcomes and better distribution of health care within it. There is a need for elaborating a National Health Promotion Program consisting parts focusing on

- > putting the financial reform back on track
- > restructuring pharmaceutical expenditure by limiting full coverage to a core package of essential drugs and

basing the level of subsidy on the price of the lowest cost equivalent drug,

> better combination of inpatient and outpatient services,

> to influence the low cost solution,

> regional allocation of budget resources on a capitation basis, it would force a more equitable distribution of care and reduce inefficiency,

> defining clearly the limit of the public funded Health Insurance Package, countries of CEE may need to come to terms with the fact that the full range of medical technology known today can not be quarantined universally in all cases of need with per capita public budgets at around 250 -700 dollar per year. This would require extensive analyses of

> the relative cost effectiveness of alternative intervention for specific diseases and

> of the extent to which the system can afford to pay for various alternatives,

> enhancing the autonomy of managers of health facilities, managers of the health facilities need and deserve to be granted greater autonomy to run health institutions as an independent economic units, responding to the signals offered under the new financing system, this includes the freedom to hire and fire staff and set salary levels on the basis of performance, to reach this end, the current laws that cover health workers under public service employment laws would need to be revised,

> restructuring the hospital system, the persistence of excess capacity in the health service system, and particularly inacute hospital care, continues to be a major cause of inefficiency, of financial shortages, and ultimately of poor quality services. (for example in Hungary in 1993, there were 33 physicians and 101 hospital beds per 10,000 population, the averages for EU countries, where per capita budgets for health are significantly higher than in Hungary, were 25 physicians and 90 beds per 10,000 in the same year, reducing excess capacity is a sine qua non for successful health reform).

In Hungary the reform has been started already in late 1980s

> changes in the financial system has been introduced. Financing of health expenditures was shifted from state budget to a compulsory health insurance system by creating a Health Insurance Fund (HIF),

> subsidies on pharmaceutical retail sales were also transferred to HIF,

> introducing of family physician services and free choice of family physician,

> changes in ownership arrangement has been taking place, ownership of public health facilities was transferred from center to local government, and autonomous private practices, including private health service enterprises, were legalized,

> a National Health Promotion Program has started up, the program was initiated to increase awareness on the importance of health promoting behavior and develop programs to help individuals make these changes and train health professionals to offer such help.

The Czech Republic and Estonia are those countries which have achieved the similar results in the health reform what Hungary has done. However, even these countries are far to complete the reform. In other countries of CEE the reform is mostly only in conceptual phase and what they have done was adopting new legislation and establishing a legal framework (Health Insurance Law) for reform. Most of the countries the constitution guarantees the medical services to the citizens. Medical insurance systems are being developed, subsidies on pharmaceutical are being reduced, and eligibility for sickness benefits that were liberally granted in the past, are being tightened. The development of private alternatives in services delivery and founding for health have been encouraged, but the speed of reform differs from country to country. The implementation of this reform is slow and there are serious financial problems as well. For example, total state expenditure in the field of public health in 1995 was equal to 2% of GDP of the Russian. As a result of the increasing financial problems facing public health in Russia it is difficult to meet the constitutional guarantee to the population in the field of health protection and the medical services.

Family assistance allowances

In CEE there are many benefits available to families. The main programs are the following: maternity leave, birth pay, allowances for child-care, family allowances support to mothers of many children, assistant programs for the wife of recruits.

The most important in financial term is the family allowance. The objective of it is to support the well being of mothers and children, ease the employment child care dichotomy for mothers, and boost fertility. In countries of EEC there is a relatively high public spending on family benefits. For example in Hungary in 1993 the family allowance was paid to the parent of 2.28 million children, 3.0% of GDP. This level of expenditure places Hungary on a par with the most pro family countries in Europe, for example France (2.7% of GDP) and Netherlands (2.1% of GDP). The fact that that high public spending on family benefits is coexisting with increasing poverty among children clearly points to the need for a fundamental overhaul of the system. However important the objectives of encouraging fertility, supporting all parents during the years of early childhood, and assisting all families to help meet the costs of child raising, no country in the world can afford to stand back and watch increasing number its young citizens fall into poverty when it can prevent it. Poverty prevention and poverty alleviation are therefore considered the overriding public policy objective for family allowance. In most of the countries of CEE the situation is similar to the Hungarian one.

The approach has to be one of grater selectivity and targeting. Targeting can be achieved through

- > means testing,
- > bringing the transfer within the framework of income taxation,
- > providing payments to families exhibiting certain characteristics, known to be closely correlated with poverty,
- > heterogenic approach.

The majority of countries of CEE apply the last one. Hungary, for example, has the means testing and poverty related approach. Because, Hungary has not family taxation, the problem of those people outside the tax system, often poorest of all, taxation approach can not be applied in Hungary. In most countries, however, the reform of the family assistance programs has not yet been formulated. The governments' approach is incremental and their main concern appears to be improving existing programs and introducing new programs only where needed. (Violet Roxin-János Hoós.1995.)

Reform of the education system.

The one reason what justifies public education, government support for education that: there are important externalities associated with having an educated citizenry. A society in which everyone can read can function for more smoothly than a society in which few can read.

The justification for public support of education also arises from concern about the distribution implications of the private financing of education. Richer individuals will want to spend more on the education of their young, just as they spend more on cars, homes, and clothes. However, there is a widespread belief that the life-chances of a child should not depend on the wealth of his parents or the happenstance of the community in which his parents live. The prospect of upward mobility, that one's children will be better off, has provided much of the political support for public education.

These concerns about "equity" may explain why the government has taken an active role in providing education at the elementary- and secondary-school levels, but they do not fully explain the role of the government in higher education. If capital market were perfect, individuals for whom education is beneficial, for whom the return to education exceeds the cost, have incentive to borrow to finance their higher education. But private lenders are not, for the most part, willing to lend to finance education, hence those without funds of their own (or their parents') would be denied access to higher education without some assistance from government. There is good explanation for this: banks are concerned about the difficulty of getting repaid. The substantial difficulties that the government has had in getting loans to student repaid is consistent with these concern. Most public support for higher education has taken the form of free, or at least subsidized, education in state universities and colleges.

The concern for equality of opportunity has led to almost universal agreement that the government should play some role in provision of education. Less certain is what its role should be. The situation is different in every country, but there is a common feature, that they try to rationalize the education system, to make more efficient of the role what government has to play. This is the case in CEE as well.

Modernizing the education system means:

- > improving its quality and relevance,
- > maintaining nursery education, and
- > increasing access to upper secondary and higher education

It will have to be achieved

- through more efficient use of existing public resources and
- by mobilizing other resources.

Key areas are:

- the rationalization of the institutional network,
- further integration of research institutions,
- reorganization of teaching programs and teaching staff, and
- flexible learning arrangements - shorter, evening and correspondence courses.

Higher education, because of the substantial private returns to be gained from it in the evolving market economy, is also a target for cost sharing with its consumers. There are various ways to achieve this:

- reducing student stipends and charging tuition fee, with appropriate funding mechanisms for students from poor families is one approach,
- another is the levying of a proportional "graduate income tax" on beneficiaries of publicly-founded higher education once they enter the labor market and begin to reap the benefits (higher incomes) from their education.

But it can not be forgotten: as countries of CEE continues the transition to market economy, the importance of education grows apace; its central role underpinning a successful democracy, a functioning and growing market economy, and in ensuring social equality has to be widely acknowledged.

The reform of education system has started in every countries of CEE. The elimination of irrational parallelism and integration of the institution has begun. Decision-making responsibility for state education and vocational training is divided between central government, local government and number of different ministries. Most state education institutions come under the control of local government bodies. The curriculum has been modified according the new requirement of the market economy. A multi-sector school system – state and private schools – and some elements of a genuine market for professional services has been created. The major source of fund for education is still public ownership, which is contribute to the budgets of primary and secondary schools and vocational trainings, but the role of private fund has been increasing. However, the value of state contribution and financing in real terms remained unchanged or even decreased during the transition period. Due to that the education is underfinanced, especially if we take into consideration the economic and social importance of the educated and skilled population in a competitive modern market economy.

Problem of social exclusion. Poverty.

During the transitional period (from 1990) a growing number of households, including many headed by younger workers, slips into chronic poverty every year. It is due to the decline of the economic growth, rising unemployment and the shrinking of the welfare expenditures (in real term), reducing social transfer and declining public services. The increase in poverty differs widely from country to country, however, in some cases poverty may already have started to

decline. The varying pattern of output fall and recovery, together with the efficiency with the state provides basic investment in health and education and social safety net have been crucial determinants of the different developments of living standards in the transitional countries. (Transitional reports 1997.) That is, it should be noted, that poverty has many dimensions, of which income is only one. It is important to recognize these other dimensions, in particular health and education.

The Table 2 shows the poverty in selected CEE countries.

Poverty can be measured also in absolute terms as the share of the population receiving less than the subsistence minimum income. According to this calculation in Hungary between 1.5-2.0 million people, about 15 % of population was below the poverty line in 1992. This figure has reached more than 20 % in 1994. This figure was 40% in Byelorussia, 20 in Estonia, 80% in Lithuania, 40% in Romania. (Violet Roxin-János Hoós. 1995)

The following type of household are most vulnerable to poverty, - they are those people who belongs to the category of the so called social exclusion, who are excluded from the decent living standard -: single- parent families, households with elderly heads, household containing unemployed persons, household where the working-age head is inactive, household where the head has low education, household having four or more children, gypsies. There has been shift in poverty from rural old to urban families with young children, away from special occupation to family circumstance, especially unemployment, and away from inactive households to households with active earners.

The key to containing and reducing poverty is resumed growth. However, for some people, such as those with outdated skills, elderly, or children in large families, growth in not complete solution. For such groups explicit remedial programs are needed. Even for the rest of the population, growth will need to be sustained to have a major impact on living standard.

*Table 2.
Inequality and poverty in selected transition economies.*

Co Country	Gini coefficient			Poverty head	
	Change from			Head count	
	1993	1987-88	1987-85	Income	Expenditure
	1993	1987-88	1987-85	1993	1993
Bulgaria	34	11	2	33	
Czech Republic	27	8	0	1	1
Hungary	23	2	1	2	6
Poland	30	5	6	12	12
Slovenia	28	4	0	1	1
Estonia	39'	16		23	21
Kyrgyz Republic					
Ab about	50	9-33		76	57
Russia	48	14-24		38	35

a. Percentage of population below the poverty line.

Source: From Plan to Market

The key to containing and reducing poverty is resumed growth. However, for some people, such as those with outdated skills, elderly, or children in large families, growth is not complete solution. For such groups explicit remedial programs are needed. Even for the rest of the population, growth will need to be sustained to have a major impact on living standard. Reforms are also needed to correct the perverse redistribution of income, what is contributes to this general trend of an increasing poverty incident. Therefore, the final solution for the poverty problem of ECC will be the successful social policy reforms and sustainable economic growth.

European Union (EU) and Social Policy of EEC

One of the main priorities of the policy of countries of EEC is to become member of the EU. The EU set requirements - including ones relating to the social policy as well - what should be met in order to get membership. These requirements put emphasis on the reform of social policy. Let us take two important examples:

In case of health reform they are: integration of the health

contribution collection in the tax authority; completion of the privatization of the family doctor's praxis; the system of medicine subsidies has been modified (for example: fixed amount subsidies has broadened; to start a comprehensive people's health offensive due to deteriorating health condition of the population, decrease of the number of population; to allocate larger resources for health care; the emphasis of public policy should switch from health care to health maintenance!

In case of pension system: the objective of pension reform is to give citizens the freedom to decide whether they are satisfied with the pension provided by Social Security, or whether they would like to take on a greater degree of responsibility for their retirement; to establish a "multi-pillar" pension system; strengthening of the insurance principle

Those countries of EEC which become member of EU – like Poland, Hungary, Czech Republic, Slovenia, Estonia for example, – should meet these requirements and by this the reform of social policy will be accelerated in these countries. At the same time the EU membership can strengthen the economic foundation creating and implementing of an efficient social policy as well.

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Zusammenfassung

Eine der größten Errungenschaften des Gesellschaftssystems der ehemaligen sozialistischen Staaten Osteuropas war die relativ gleiche, nicht extreme Einkommensverteilung. Dies war in erster Linie das Ergebnis der gewährleisteten Beschäftigung, der niedrigen Unterschiede zwischen den Löhnen sowie der intensiven sozialen Fürsorge seitens der Unternehmen. Die Unternehmen waren zur sozialen Fürsorge ihrer Beschäftigten und zu einem Beitrag zu den sozialen Aufgaben der jeweiligen Regionen „verpflichtet“. Die Sozialpolitik war durch die „von der Wiege bis zum Grab“ reichende staatliche soziale Fürsorge gekennzeichnet, durch ein staatlich gelenktes Pensionssystem, durch ein unentgeltliches Gesundheitsvorsorgesystem sowie Familienbeihilfen. Unter den sozialen Subventionen haben die Zuwendungen in Form von Naturalien eine große Rolle gespielt. Die Systemwende führte zu einer hohen Arbeitslosigkeit und zur Differenziertheit der Löhne im hohen Ausmaß. Vier miteinander verknüpfte Aufgaben ergaben sich daraus:

1. die Schaffung von Arbeitsplätzen, die dauerhafte Beschäftigung sowie Löhne gewährleisten
2. die Entlastung der Unternehmen bezüglich der Erfüllung von sozialen Aufgaben
3. der radikale Abbau der staatlichen Preissubventionen
4. die Gestaltung von neuen Beschäftigungsinstitutionen und –mitteln (z.B. Arbeitslosenunterstützung, Umschulungen)

Dies warf den Bedarf nach einer umfassenden Reform des sozialpolitischen Systems auf. Diese Reform musste sich auf alle Subsysteme dieses System erstrecken. Die Lösung der Aufgabe bedeutete bzw. bedeutet zunächst die Ausarbeitung des Reformkonzepts, sowie die den Gegebenheiten entsprechende, anschließende Verwirklichung desselben. Bedeutendere Erfolge können auf ersterem Gebiet nachgewiesen werden.

Összefoglaló

A kelet európai volt szocialista országok társadalmi rendszernek egyik legnagyobb vívmány a viszonylag egyenlő, nem szélsősége jövedelem elosztás volt. Ezt elsősorban a garantált foglalkoztatás, a bérek alacsony differenciáltsága és az intenzív vállalati szociális gondoskodás eredményezte. A vállalatoknak „kötelezettségeivé” tették az alkalmazottaikról való szociális gondoskodást, adott régiók szociális feladataihoz való hozzájárulást. A szociálpolitikát a „bölcsőtől a sírig” terjedő állami szociális gondoskodás jellemezte, államilag irányított nyugdíjrendszerrel, ingyenes egészségügyi ellátási rendszerrel, családsegélyezéssel. A szociális juttatásokba nagy szerepet játszottak a természetbeni juttatások. A rendszerváltozás nagyarányú munkanélküliséghez és a jövedelmek nagyfokú differenciálódásához vezetett. Négy egymással összefüggő feladat jelentkezett: a./ tartós foglalkoztatást és jövedelmeket biztosító munkahelyek teremtés, b./ a vállalatok mentesítése a szociális feladatok ellátásától, c. állami ártámogatások radikális leépítése, d/ új foglalkoztatási intézmények és eszközök kialakítása (pld munkanélküli segély, átképzés.) Ez a szociálpolitikai rendszer átfogó reformjának az igényért vetette fel. E reformnak ki kellett terjednie e rendszer mindegyik alrendszerére. A feladat megoldása először a reform koncepciójának a kidolgozását, majd annak lehetőségekhez képesti megvalósítását jelentette, illetve jelenti. Jelentősebb eredmények az előbbi területén mutathatók fel.

Towards the information society

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SUMMARY

A new social class of the XXI century, the information society, is emerging as a result of the convergence of telecommunication, information technology and electronic media called infocommunication technologies (ICT) and it is based on the developing information networks. It is characterized by the globalization of the world economy, the appearance of new products and services, the introduction of new work structures and changes in the labour force, bilateral communication based on the use of information resources all over the world and new tools for practicing democracy. It is impossible not to take into account these extended processes as a result of globalization. On the contrary, taking an initiatory and active part in it, nations and generations can take economic and social advantage of it. For Hungary it means increasing chances of integration by breaking out of the past and bridging the gaps, thus, all efforts must be made to ensure the necessary conditions for it.

This process has been given priority in every country and has become the most essential issue in determining long-term objectives promoting the development of activity strategies in each country. It has become the issue that the European Union intends to look at as a significant weapon in the promotion of integration. That is the reason why accession to the initiatives of the Information Society has become of utmost importance in the European Union.

Only the person capable of using and producing information in huge amount in the interest of future society will become a real citizen of the European Union, as information is its most valuable product. At present the technological development is well ahead of the conscious development of human beings. The new information systems as well as the systems of informatics bring about changes in the ways the society operates, ensuring a wider field of activity for an independent person who is ready to participate.

The information society can emerge only if the majority of individuals in society can take part in it own ICT devices and know how to use them.

OPPORTUNITIES FOR HUNGARY

The current state of development of the Union is considered to be the starting point for the e-European project of the European Union. We cannot but share this

point of view from the framework of the e-Hungary project, and we would like to give an overview of the realistic activities expected to be carried out in the distant future taking into account the current state of the Hungarian economy and society.

On the basis of the Hungarian gray market as well as the innovation capacity there is a real opportunity to take the 'advantages of late comers' in order to utilize sophisticated technologies and target oriented methodologies, to ease the tension arising from 'the narrow cross-section' hindering the development of the country and to join the 'new economy' at the turn of the XXI century. Only a conscious and fast accession into the IT society can ensure a successful exploitation of developing and growing potential of Hungary. In addition, the application of new technologies promotes the growth of the competitive force of economy and improves the living standard of society in Hungary.

In the age of globalisation only a country that is able to create a modern, innovative and, thus, competitive economy can provide and improve the welfare of its inhabitants. In the global world economy only the national economy based on competitive society can be successful. Members of a competitive economy have to be ready and be able to communicate, cooperate, acquire new skills and knowledge, find solutions to new problems and phenomena emerging in a completely new environment at non-governmental or non-profit levels during their whole lives.

A competitive economy 'is served' by an efficient and professional state, which provides administrative, innovation and educational services, health and social care at 'competitive' prices and costs in the world market for its members and economic units working in the country. All this cannot be imagined without the application of the results and achievements of the most sophisticated IT and technology in our 'everyday lives' and on a wide scale.

Hungary possesses considerable achievements in the development of the IT society which can be of great importance for the Union and its member states. It encompasses Internet programmes used in public education, initiatives exercised in distance learning, networks of telehouses and the great results achieved in the dynamically developing mobile telecommunication industry.

Several professional and political projects have been launched targeting the development of the IT society in Hungary. But because of their slow implementation or non implementation we experience a considerable lagging behind the developed countries.

TENDENCIES IN DEVELOPMENT

The development of the information and communication sector of industry has been amazing in the past several years compared to other sectors, thus contributing considerably to the growth of economy in the EU.

According to forecasts there will be a dramatic increase in the ICT market. More favourable prospects and a common development of the export market will promote this phenomenon. The rate of employment is not likely to drop and the inflation rate will probably remain low in most European countries. These factors alongside with the increase in demand will promote secure business and provide favourable conditions for ICT investments.

As for the USA, it still plays a dominant role in the information technology market and its economic development is healthy. In 1998 the real value of GDP increased by 4.3%. The pace of development experienced in Ireland was 8.9% and Finland it was 5.6%. The real value of GDP in the EU was 2.7%.

*Table 1. ICT market of big regions by products, 1999.
(Million Euros according to the rate of exchange in 1998)*

	Western Europe	Eastern Europe	USA	Japan	Other	World total
IT hardware	98652	4189	141163	44313	55310	343627
Software	43517	813	68216	13172	23265	148982
IT services	77646	1621	141389	37082	43635	301372
Telecommunication eq.	58091	3190	23808	12073	44374	141535
Transfer eq.	192135	13255	189650	64646	197575	657261
Total:	470040	23067	564225	171285	364159	1592777

Source: EITO 2000

As the evaluation of certain ICT markets in big regions shows that the United States plays a dominant role. Its world market share was 35.4% in 1999, whereas the European countries had 31%. Japan also has a big share. Having a closer look at the European market the market share of Western Europe is much bigger than that of Central or Eastern Europe. Compared to 31% of the share, which is 493,109 million Euros Eastern Europe owns only 4.7% that is 23,068 million Euros. At the turn of the

century the greatest challenge for Central and Eastern European countries was to create a reliable infrastructure in order to be able to preserve their stability and economic growth. Several countries carried out reforms in legislation and regulation so as to attract investors in key sectors of industry (administrative, banking, finance and telecommunication). In 1999 the costs amounted to 23.1 million Euros in the examined seven Central European countries (Table 2.).

Table 2. ICT market in Central and Eastern Europe by country (million Euros)

	Czech Republic	Hungary	Poland	Russia	Slovakia	Slovenia	Estonia
Computer	474	362	1014	981	122	132	76
Office machine	41	43	81	144	20	12	6
Data transfer hardware	138	98	173	201	29	23	20
IT hardware total:	652	502	1268	1326	170	167	103
Software	180	153	238	116	57	46	23
Services	456	336	397	257	109	48	18
IT software and services	636	489	635	373	165	94	42
IT total:	1288	991	1902	1700	335	261	144
Telecommunication equipment	540	422	921	840	252	121	95
Transfer services	1487	1700	4155	4731	644	312	226
Telekommunication total:	2026	2121	5075	5572	896	433	321
ICT total:	3315	3112	6977	7271	1231	695	465

Source: EITO 2000

In almost every country of the region where the survey was conducted emphasis was laid on the sign transmission services. Russia had the highest figures at 65%. The figures showing IT software and related services in the Czech Republic and Hungary were 19.2% and 15.7%. In other countries it was under 15%. This indicator was the lowest in Russia where it was only 5.1%.

Regarding the number of inhabitants in Russian and the Ukraine the market of both countries is looked at as a potentially the biggest ICT consumer, especially with the increase in demand for telecommunication and IT devices such as printers, PCs, office machines and so on.

Due to their stability and market liberalisation the smaller countries like Czech Republic, Hungary, Poland, Slovenia and Estonia have great demands for more sophisticated systems, communication devices and related services. Foreign investors have also contributed to this process as companies they have set up in these countries have established processes similar to the ones in their western parent companies.

Despite economic and political stability on the ICT market of the region the Russian share amounts to 31.5%, Poland is rated as the second largest market taking into account the number of its population and Hungary has a share of 13.5%.

The ratio between IT and GDP, or the IT expenses per capita shows how widespread IT is in a particular country (Table 3.). On the basis of these data we get the structure discussed above. The ratio between IT and GDP in the USA was outstandingly high (1998), in Japan it was 2.7%, in EU the average ratio was 2.54%, although it should be noted that in Western Europe this figure varies considerably for example in Sweden it was 4.2%, but in Greece it was only 0.9.

In the UK, Denmark, the Netherlands and Switzerland this figure is above 3%. Only in Portugal and Greece does this figure not exceed 1.5%.

In Eastern Europe the expenses spent on information technology have increased considerably in the past ten years despite the fact that its ratio compared to GDP is still lower than in other western countries. As for its ration it is the highest in Estonia (3.2%), Czech Republic (2.7%) and Hungary (2.5%), but in Russia it is only 0.6%.

Looking at IT expenses per capital the backwardness of this region is even more striking. According to the data this figure is 123 Euro/capita in Slovenia, 119 Euro/capita in Czech Republic, which is even higher than in Greece where this figure is 91 Euro/capita compared to the average which is between 142 – 1157 Euro/capita.

Table 3. Popularity of IT technologies in 1998

	IT/GDP (%)	IT expenses per capita (Euro)	PC per 100 inhabitants (piece)
Western Europe	2,54	514	21
EU	2,51	499	20
Germany	2,41	560	24
France	2,71	590	20
UK	3,31	694	25
Italy	1,59	289	11
Spain	1,73	218	9
Austria	2,21	518	22
Belgium/Luxembourg	2,40	532	18
Denmark	3,02	891	43
Finland	2,69	576	32
Greece	0,91	91	7
Ireland	1,90	370	20
Netherlands	3,07	654	35
Norway	2,79	816	43
Portugal	1,49	142	8
Sweden	4,17	952	46
Switzerland	3,41	1123	39
USA	4,38	1157	51
Japan	2,72	725	13
Central and Eastern Europe
Bulgaria	1,19	13	..
Czech Republic	2,74	119	..
Hungary	2,50	90	..
Poland	1,49	46	..
Romania	0,56	7	..
Russia	0,61	14	..
Slovakia	1,90	60	..
Slovenia	1,64	123	..
Estonia	3,21	82	..
Croatia	1,35	45	..

Source: EITO.IDC, OECD

CONCLUSION

The emergence of the information society is a process promoting positive effects and decreasing or eliminating the negative ones while making the unfavourable unknown results serve society in different stages of its development in various extend. It forms the basic values of every society. Political authorities are expected to contribute to this process. Responsible institutions are expected to take an essential part in it. Regulations applied should promote the social solidarity. Companies, institutions and individuals should be involved in taking on responsibilities in this process as well. The concerned should be guided by principles serving the interests of society in the long run when decisions are made, measures are taken and actions are carried out.

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Zusammenfassung

Als Ergebnis der Konvergenz der Fernmeldetechnik, der Computertechnik und der elektronischen Medien, also der Infokommunikationstechnologien (IKT) entfaltet sich jetzt die Gesellschaftsordnung des 21. Jahrhunderts: die Informationsgesellschaft. Die Gesellschaft charakterisieren die Globalisation der Weltwirtschaft und damit die Herausbildung neuer Produkte, Dienstleistungen; die Erscheinung neuer Arbeitsstrukturen und die Umgestaltung des Arbeitsmarktes sowie die zweiseitige Kommunikation mit den Informationsquellen in irgendwelchem Teil der Welt und damit die neuen Mittel der Ausübung der Demokratie. Sich von diesem bedeutenden Porzeß zu verschließen ist wegen seiner Globalität nicht möglich, aber er kann bei einer anregenden, aktiven Teilnahme den einzelnen Nationen zahlreiche Möglichkeiten zur Besserung ihrer wirtschaftlichen, gesellschaftlichen Position bieten. Für Ungarn bedeutet das die Chancen des Ausbruchs, der Aufschließung, Integrierung, deshalb müssen seine Bedingungen noch um den Preis großer Anstrengungen gesichert werden.

Összefoglaló

A távközlés, a számítástechnika, és az elektronikus média, együttesen infokommunikációs technológiák (IKT), konvergenciája eredményeként kialakuló információs hálózatokra ráépülve most bontakozik ki a XXI. század társadalmi rendje: az információs társadalom. E társadalmat a világgazdaság globalizációja és ezzel együtt új termékek, szolgáltatások kialakulása, új munkastrukturák megjelenése és a munkaerőpiac átalakulása, valamint a világ bármely részén lévő információforrásokkal való kétoldalú kommunikáció, és ezzel a demokrácia gyakorlásának új eszközei jellemzik. E nagymérvű folyamat elől elzárkózni, globalitása miatt, nem lehet, ám kezdeményező, aktív részvétel esetén számos lehetőséget nyújthat az egyes nemzeteknek gazdasági, társadalmi pozícióik javításához. Magyarország számára ez a kitörés, felzárkózás integrálódás esélyeit jelenti, ezért ennek feltételeit még erőfeszítések árán is biztosítani kell.

Hungarian medium-sized and large enterprises in private ownership from the EU perspective

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SUMMARY

Authors give an overview of the history of the Hungarian economy and present current situation. The article focuses on economic circumstances established after the political change of the regime. This analysis gives an insight into the threats and opportunities of Hungarian medium-sized and large enterprises with special regard to our EU accession. A brief comparison of economic situation and conditions in other accessing countries is also to be found in this paper.

Key words: economic circumstances; threats and opportunities for Hungarian large enterprises in private ownership; change of the regime; competitiveness on international markets

INTRODUCTION

Changes in the 1990s have fundamentally transformed Hungary's economic structure and modified its features characteristic before the change of the regime. As part of the modernisation process, market relationships have been restructured (western dominance instead of eastern dominance), the structure of production has been altered (labour demanding production instead of raw material requiring manufacturing), the pace of technical development has increased, business forms have changed (partnership instead of company), the number of self employed enterprises has multiplied, however, the most significant change has been induced by the appearance of new owners, such as foreign investors.

a) The Hungarian economic transformation was rapid even in an international comparison. The advantage of a “modernisation performed on impulse” is the relatively short transitional period and the uninterrupted realisation of pressing economic corrections. On the

other hand, effectiveness was weakened by the lack of professional expertise, disorganised transformation and owing to the shortage of domestic savings, the dominance of foreign investors and foreign ownership stake.

b) The social and economic change of the regime has solved a great number of problems while it has brought much contradiction to surface. *Foreign investments helped Hungary closing up in the rank of national economies, although they also enlarged the economic and social gap inside the country.* Income originating from privatisation was primarily used to finance budgetary deficit and little was earmarked for improving operating conditions of the Hungarian economy. Economic stabilisation made business operations safer, however, due to the reorganisation programs, the number of bankruptcy and winding up proceedings were soaring, and so did unemployment. In order to create new workplaces instead of the ceasing ones, a large number of new enterprises was established, however,

they could hardly contribute to the increase of macroeconomic output since they were lacking professional experience and mobilizable resources.

c) Even if the open economic policy offered attractive opportunities to foreign investors, the new economic philosophy did not ensure the protection of domestic market actors. This resulted in an extremely contradictory situation, the effects of which have been

still present in ownership (foreign and domestic), structural (the proportion of raw material production, manufacturing industry and tertiary sector) and regional issues.

The numbers below demonstrate the result of economic transformation and the differentiation of economic actors.

Figure 1 Characteristics of partnerships, 2001
(financial sector excluded)

	Total number of partnerships	Partnerships		
		Exclusively domestic	Of foreign interest	Proportion of domestic partnerships (%)
Number of enterprises (pieces)	299263	273 644	25 599	91,7
Employees (person) 2 157 023	1 565 521	591 502		72,6
Net sales revenue (Billion HUF)	37 358,2	18 300,1	19 058,1	49,0
Export output (Billion HUF)	8 668,1	1 528,5	7 139,6	17,6
Profit before taxation	2 215,9	1 055,6	1 160,3	47,6
Loss before taxation	-861,4	-370,5	-490,9	43,0
Paid corporate tax	246	145,4	100,6	59,1
Capital subscribed	6 731,1	3 432,7	3 298,4	51,0
Equity	12 500,4	6 058,4	6 442	48,5

Source: figures are calculated on the basis of annual flash report by APEH-SZTADI, 2002

Judging by many other yet not discussed factors and results, it can be stated that *in Hungary foreign capital meant an important incentive of stabilisation and growth in the decade after the change of the regime*. Even nowadays, investments should be further stimulated by economic policies. While all governments of the past 10 or 12 years have devoted much attention to creating favourable circumstances for foreign capital, the other crucial segment of ownership transformation, *the evolvement and development of domestic private ownership happened in a rather spontaneous way*. This statement can be well supported by the repartition data of tax allowances in year 2000, which reveals an 88% proportion of foreign enterprises (see Figure 2.). It also needs to be emphasised that more and more importance has been attributed to the SME sector since the mid 1990s, however, due to bad figures of profitability and the undercapitalised character of enterprises did not enable the sector to take advantage of such “offered” benefits. (Measures of 2003 might be able to bring about significant changes in this field enabling enterprises to debit profit before taxation with developments and capital increase.)

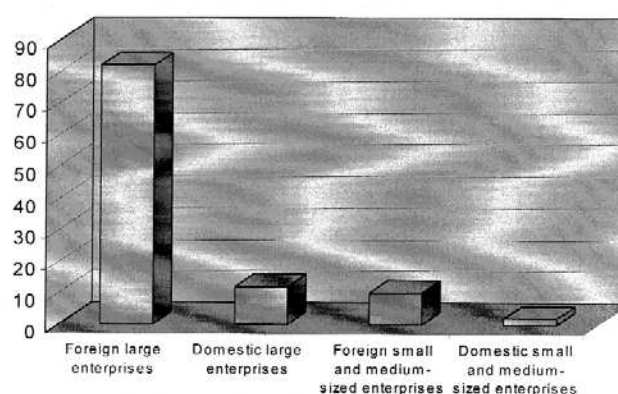


Figure 2.
Proportion of tax allowances in 2000.

The late modification in allowances concerning domestic medium-sized and large enterprises in private ownership resulted not only in a longer period of stabilisation but also in a greater relative and absolute backwardness in competition of such entrepreneurs. There is however a more

serious problem to tackle, namely the fact that *expectations of cooperation in manufacturing and distribution between domestic enterprises and foreign subsidiaries operating in Hungary have not been fulfilled.*

As a conclusion, it can be stated that the stabilisation of Hungarian corporate structure was completed by the end of the 1990s. Medium-sized and large enterprises in exclusive domestic private ownership have played a crucial role in the struggle for survival, in the process of reorganisation and in gaining ground of foreign enterprises. They well reflect the original ideas on privatisation as they are the best means of mobilising domestic micro and small enterprises due to their special character of having goods produced. In spite of their contradictory features, Hungarian medium-sized and large enterprises in private ownership have the best chance to take part in the international competition.

2. CHARACTERISTICS OF HUNGARIAN MEDIUM-SIZED AND LARGE ENTERPRISES IN PRIVATE OWNERSHIP

Hungarian medium-sized and large enterprises in exclusive private ownership can be considered the distinctive creations of privatisation as the majority of them were established on the basis of "remainder principle" since they are former state enterprises not having drawn the interest of foreign enterprises. Due to the lack of governmental subsidies, owners had no option but to fulfil reorganisation by own contribution and create a sustainable expansion path by themselves. Supports offered by the government only included allowances on special E-credit and on revenues originating from selling mobilizable assets.

Figure 3.

Proportion of large enterprises in private Hungarian ownership concerning total output of all enterprises in exclusive domestic ownership

	1997 (%)	1998 (%)	1999 (%)	1999 (%)	2001 (%)
Number of enterprises	0,27	0,25	0,23	0,22	0,20
Proportion of employees	22,3	21,6	21,1	20,8	20,5
Net sales revenue	28,6	28,7	29,0	29,6	30,1
Export output	61,9	63,4	64,1	65,7	66,1
Paid corporate tax	49,4	49,2	49,8	50,2	50,7
Profit after taxation	25,7	25,9	26,2	26,3	26,2
Capital subscribed	15,1	14,6	13,9	13,6	13,2

Source: Calculations are based on the annual flash report of APEH-SZTADI

As figures imply, domestic medium-sized and large enterprises have become a determining factor of the economy. According to Figure 3. and other database analysis, the following roles of such enterprises should be highlighted.

2.1 Their role in employment

Almost half of the 1000 large enterprises each employing more than 250 people has been in private ownership in Hungary. In year 2000, Hungarian large enterprises employed a total of 840 000 people out of which 260 000 were employed by Hungarian companies in private ownership while 350 000 employees worked at foreign enterprises. The employment of Hungarian large enterprises has been of significant macroeconomic importance both in the short and medium run, as they have been playing almost the same role as foreign enterprises. Taking the differences in national and foreign employment policy into consideration, the role of Hungarian enterprises in economic stabilisation has been surpassing that of the foreign ones.

2.2 Their role in export output

There has been a considerable difference in export output proportion of domestic and foreign enterprises, however, the dynamism of their growth rate has been quite the same in this field. Large enterprises account for 70% of total export output, out of which 60% has been performed by foreign enterprises. This can be traced back to the fact that subsidiaries of multinational companies have mainly been established in Hungary in order to make distributions on European markets. When considering the dynamism of growth in export proportion of Hungarian large enterprises, the situation is quite different. Between 1995 and 2000, the proportion of export produced by domestic large enterprises has risen from 20% to 38%. In other words, foreign enterprises have increased their export output from 44% to 64%, while an increase from 13% to 18% can be contributed to Hungarian enterprises in private ownership. It actually means that there has been no difference in export dynamism concerning these two categories as both groups have increased their export output by almost 50% in the past five years.

2.3 Their role in developing SME sector

With regard to dominant trends of purchase and distribution, the majority of enterprises in question belong to the sector manufacturing goods for export sales and using mainly domestic and import materials.

On the basis of their role in international trade, enterprises can be classified in four categories¹:

- Category I: goods are produced mainly of domestic materials and sold rather on domestic markets.

¹ Based on the research on domestic large enterprises carried out by Károly Lóránt, published in the special edition 2002 of the journal Vezetéstudomány, titled The Hungarian industry: Historical past and new challenges (A magyar ipar: Történelmi múlt és új kihívások).

Enterprises belonging to this category have the greatest importance concerning GDP output as 72% of employees, who are working for enterprises based on either double-entry bookkeeping or cash basis of accounting, are employed by them.

– Category II: goods are produced of domestic and imported materials and sold on export markets. Enterprises belonging to this category employ 11% of workforce and contribute to GDP output by roughly the same percentage. What is more important, they provide half of the export output and therefore have a positive balance of trade.

– Category III: is made up of enterprises producing goods from import to export and to export and to domestic markets

– Category IV consists of entrepreneurs manufacturing goods from import and domestic materials to domestic markets.

Besides improving the balance of trade, enterprises belonging to category II might be able to help domestic suppliers (mainly of category I.) to integrate into the world economy.

2.4 Their contribution to budgetary revenue

As it becomes clear from Figure 1 and 3, amounts paid into the budget by domestic large enterprises in private ownership has been exceeding their proportion in sales revenue and export. Owing to the lack of allowances, they mean a smaller “burden” for the government than other enterprises do. Compared to their direct roles, their indirect impact has been even bigger as they ensure a stable market for thousands of enterprises, this way enabling them to create favourable budgetary relations.

3. STRATEGIC CHARACTERISTICS AND POTENTIAL FOR IMPROVEMENT AMONG DOMESTIC LARGE ENTERPRISES IN PRIVATE OWNERSHIP

➤ *Their activities have been suppletory* therefore in case their circumstances of operation could be improved, they would be able to produce goods competitive enough for international markets as well.

➤ *Their structure of ownership and management has been balanced* and the realisation of development projects are not threatened by occasionally arising insecurity originating from personnel issues.

➤ In the long run, they might be *the main target and implementer of national economic policy*.

➤ The main challenges of EU markets, namely flexible expansion of production and inevitable restructuring of operation, can be faced exclusively by large enterprises of diversified activities. Without large enterprises, consequences of inflexibility need to be handled by economic policies themselves.

➤ Large enterprises in domestic ownership are “predictable” partners of the budget and are considered to be the most significant central and local taxpayers even in the long run.

4. MAIN FACTORS OBSTRUCTING THE OPERATION OF DOMESTIC LARGE ENTERPRISES IN PRIVATE OWNERSHIP

➤ They *play an immense role in employment*, however, fiscal charges on labour (social security contribution, rise in minimum wage, public health contribution, etc.) have been threatening their competitiveness.

➤ *Constant lack of capital* has been impeding technological developments and the improvement of product range. Owing to the lack of working capital, financing their production process is more expensive compared to competitors that are supported by loans and guaranties of their parent companies.

➤ Due to the lack of working capital, domestic large enterprises are less capable of cooperation in production and distribution. The lack of medium-sized enterprises being responsible for transmission results in their inconsiderable cooperation with micro and small enterprises.

➤ Besides undercapitalisation, assets of large enterprises in exclusive domestic ownership are underestimated, therefore depreciation calculated on the basis of low value of assets does not provide the necessary expenditure for replacement.

5. OPPORTUNITIES AND THREATS OFFERED BY INTERNATIONAL PROCESSES

According to analyses on world economy, the next 2 or 3 years will be characterised by economic recession. Growth has still been determined by US performance, however, latest prognoses assess the pace of economic growth to fluctuate in an even wider band, namely between 2 and 4%. The continuous American upturn of the ‘90s is not likely to reappear and *a more volatile and smaller American and world economic growth are expected in the coming 2 or 3 years*. As for the 15 EU member states, the impact on GDP growth performed by their exporting outside the EC is predicted to lessen. It is needless to say that balance also requires similar effects on import as well. Therefore sustainable growth in the EU is more and more dependent on whether internal resources- and investment-based development are increasing and whether closing up by modernisation is introduced. In this respect expectations are high, as this way chances of domestic enterprises could be well improved. This positive vision of opportunities can be realised only in case Hungarian enterprises adapt to the EU-like process of modernisation and to programs of development and investment.

Due to the fact that the period of economic recession has been longer than expected, the pace of international cash flow has slowed down while the flow of working capital in year 2001 dropped by one third compared to the average value of previous years. Declining interest of capital holders is likely to appear with delay in the Hungarian economy as well, therefore a higher price of supplementary capital needs to be taken into consideration.

In the period of 1995 and 2001, more capital left the 15 EU member states than flowed into them. (Only a tiny proportion of capital outflow were aiming at accessing countries, the majority of investments were improving operational circumstances of developed regions in hope for quicker return and access to advances in technology.) In order to finance EC programs of internal modernisation and to better retain capital, most EU member states (e.g. Germany, Ireland, France) have resorted to tax reduction, which might result in further deceleration concerning the flow of working capital.

According to international experience, the role of large enterprises has continuously been increasing, and they have the best chance of strengthening their market position even if highly esteemed “support programs” are not aiming at them. A further international characteristic that cannot be ignored when making comparison with transitional countries is the fact that private ownership has always been present among competitors, original accumulation of capital started much earlier and governments have always played a significant role in improving operational circumstances of private enterprises.

Ways and means in the EU for implementing facts mentioned above:

- Supporting research and development, encouraging innovation
- Promoting presence in foreign markets by preferential export loans, by offering support for entering new markets, by supporting exhibitions abroad, by giving subsidies for market research and by popularizing industrial trademarks
- Subsidizing employment
- Site and regional development
- Supporting capital increase
- Loan guarantee
- Allowances on investments (tax refund)
- Preferential loan for investments and working capital
- Infrastructural developments
- Public procurement
- Creating networks for transmitting technological knowledge and market information
- Offering help and advice on organisation issues
- Supporting environment friendly technology

It is unquestionable that EU practices for promoting competitiveness should be investigated in details by Hungarian regulators, furthermore all techniques accelerating the pace of closing up among domestic medium-sized and large enterprises should be put into practice.

6. REMUNERATIVE INVESTMENTS

Hungarian domestic large enterprises in private ownership are in favour of competition under equal terms. They do not lay claims to benefits destroying competition, however, they disapprove of all kinds of discrimination. With regard to the national economy, their different means of industrial policy can well be regarded as remunerative investments:

- When assessing the situation of Hungarian large enterprises in private ownership, it is essential to take into consideration that their economic output has been

on the increase. Furthermore, the question of how domestic economic performance would change *in case this group of enterprises lost importance* needs to be thoroughly investigated. Another issue worth reflecting is the fact that enterprises of foreign interest have been excelling in technical development and profitability ratio while small enterprises have been prominent at improving employment. On the other hand, domestic large enterprises have been in charge of all these activities at the same time. They are the ones being present at technological and product research, playing an important role in effective employment while operating in a relatively profitable way.

Maintaining or rather gradually increasing employment should be a strategic objective both in the short and medium-term for a stable national economy. Numerous signs have been implying the fact that foreign enterprises, which are representing approximately 50% of large enterprises, are about to decrease the number of their Hungarian employees, which small and medium-sized enterprises would not be able to counterbalance. This problem could only be tackled by larger enterprises as experienced in the IBM – Videoton case.

➤ There is a strong relationship between employment and the overall willingness to increase export output of high added value. In case larger foreign enterprises partially cease their activities in Hungary, our export output also recedes as these enterprises are responsible for 70% of export. In order to handle this question, *enterprises in Hungarian ownership should gradually increase their export activities by using appropriate sources.*

➤ *Capital inflow, production-reallocation.* More and more factories have announced to close down, production relocation has been a regular phenomenon while capital inflow is said to be decreasing. Analysing the situation however sheds light to the fact that these cases can rather be explained by sectoral difficulties than by Hungarian economy becoming less attractive for foreign capital. The vagueness of European prosperity has undoubtedly affected the slowing down of industrial growth rate, especially in some key industries. On the other hand, interest in production outsourcing towards eastern countries is not diminishing among western European small and medium-sized enterprises. In this respect, Czech, Polish and Hungarian markets are given priority, therefore it would be worth launching a new campaign to popularize different forms of capital inflow. A Hungarian enterprise of average size should find it easier to build up a relationship as a partner or client with a small or medium-sized foreign enterprise than with multinational companies.

➤ *Research and development, services of higher added value.* So far assembly plants have mainly been founded by foreign industrial companies. Recently, there have been some signs of their establishing here activities of higher added value as well. R+D activities are much more sensitive to the general standard of economic and political confidence than to simple labour costs. This is the reason why helping knowledge-based activities to flow into the country is an important strategic objective. This way,

other factors weakening competitiveness (closing up wages, labour costs) could be counterbalanced. According to experience of previous EU enlargements, convergence of wages, consumer price level and fund pricing are inevitable, therefore it would be a mistake to take our advantage on wages that used to be characteristic in the second half of the '90s into consideration.

Results of R+D activities can be realised in the following fields:

a) Reorganising product structure in the *chemical industry* has been brought about by both environmental and economic factors. Programs are mainly focusing on knowledge-intensive volatile chemistry technologies and biotechnological developments based on renewable commodity resources. Reducing environmental load involve not only modernising production but also wrapping and other technologies of pesticides and insecticides and establishing green chemistry.

b) *Results of biotechnological research* help to produce different biomass-based additives besides generation of power. The production of volatile chemistry materials and drug intermediaries represent state-of-the-art innovation technologies. In order to further developing technologies needed for their domestic production, appropriate circumstances for implementing GMP (Good Manufacturing Practice) systems should be created.

c) Biotechnological procedures implying *further developments in cultivation and stock breeding* ensure the competitiveness of these products on international markets as demand for bio products has been skyrocketing and such technologies has been rapidly gaining ground all over the world.

The National Agricultural Informational System to be established is an Internet-based communications network aiming to spread and exchange agricultural information between the government and people. Creating a land-classifying system for registering data of agricultural production capacity and climatic conditions would contribute to arranging agricultural production and distribution in compliance with EU standards, while it would also be essential for a successful participation in EU applications.

d) The regional role of domestic aluminium production can be significantly increased and its long-term competitiveness can be insured by improving the processing standard of *aluminium semi-finished products* (cables and wires), by diversifying finished manufactures production, by proper salvaging of refuse complying with EU environmental regulations and by putting some other equipment into operation.

e) There has been a need for a technological change in the *machine and equipment manufacturing industry* in order to extend production capacity of environmental equipment in case they have the intension of meeting growing claims of industrial and municipal companies. Production technology of non-series equipment is in need of further development in case they want to boost profitability and follow consumer needs of higher and higher complexity.

f) Developing modern, energy-saving technologies for *steel constructions, power plant installations, public vehicles and energetic equipment* has been a basic requirement for keeping pace with increasing international competition.

g) Developing domestic production of *public transport vehicles* such as trolleybuses, trams and railway motor trains in order to better fulfil national demands.

h) In the framework of a incubator program for beginner entrepreneurs, it has been an objective to ensure proper circumstances for promoting modern IT products of small businesses and making them marketable. In connection with planned health care privatisation, homogenous processing and handling of hospital management systems and information are important issues to be tackled. Developing the information system of transport industry would enable the introduction of a travel card.

➤ *Integrating role for accelerating the development of SME sector.* With regard to the EU accession and the process of closing up, the first two categories introduced previously in this paper are playing a determining role. By their positive impact on employment, members of the first category using domestic raw materials for manufacturing, might be able to boost economic growth. Enterprises in the second category (high quality processing of semi-finished products made of domestic and import materials) could be responsible for improving competitiveness through expanding added value content and making progress in the field of export economic efficiency. This sector is partially made up of small and medium-sized enterprises with 34 employees on average, where EU methods for supporting SMEs could be applicable. Furthermore, after Hungary joining the EU, these enterprises together with those of the first category could benefit from structural funds of the European Union. The other part of this group is formed by domestic large enterprises in private ownership, the success in world and EU markets of which are token for Hungary's technical and economic closing up. Dynamic developments of domestic large enterprises in private ownership have positive effects on small and medium-sized enterprises of the first and second categories, therefore developing large enterprises has multiplier impacts on both GDP and employment in the Hungarian economy.

7. CONCLUSION

Analysing domestic large enterprises in private ownership with regard to international tendencies has offered the following conclusion to both macroeconomic regulators and boards of management at large enterprises: a national economy cannot be competitive in the long run unless the majority of its enterprises is competitive enough; enterprises cannot be competitive unless their products meet the requirements of competition on international markets. It is essential to be aware of the fact that product competitiveness is determined by its added value and content of knowledge therefore all measures have to be subordinate to this matter.

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Zusammenfassung

Die Vergangenheit und die Zukunft der ungarischen Wirtschaft – mit Rücksicht auf die wirtschaftliche Umgebung, die nach dem politischen Strukturwandel entstand – wurden von den Autoren des Artikels vorgestellt. Die Analyse betont die Möglichkeiten und die Gefahren die vor den heimischen Mittel- und Grossunternehmen stehen, und widmet eine besondere Aufmerksamkeit den Folgen der Erweiterung der EU.

Összefoglaló

A cikk szerzői a magyar gazdaság múltját és jelenét mutatják be különös tekintettel a politikai rendszerváltás után kialakuló gazdasági környezetre. Az elemzés nagy hangsúlyt fektet a hazai közép- és nagyvállalatok előtt álló veszélyekre és lehetőségekre, valamint külön figyelmet szentel az Unió csatlakozás következményeire.

Kulcsszavak: gazdasági feltételek, hazai magántulajdonú nagyvállalkozások lehetőségei és fenyegetettségei, rendszerváltás, versenyképesség a külföldi piacokon.

Preconditions for the Realization of Socio-Economic Modernization in Hungary

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SUMMARY

In her paper the author emphasises that economic and social modernization are of equal importance nowadays in Hungary. For economic modernization the possibility of the modification of socio-economic processes, and for social modernization the future-shaping power constitutes the main precondition. While the modification of socio-economic processes can be investigated by their stability/instability analyses, the future-shaping power can be gauged by the future orientation of individuals and social organizations. "Factor four" provides the guidelines for economic modernization, and a future-oriented education and training system can ensure a solid basis for social modernization.

Key words: modernization, stability/instability, future orientation, factor four, future-oriented education system

INTRODUCTORY THOUGHTS

We live in an age when modernization is inevitable. It is made indispensable not only by Hungary's development but also by the wider community, the broader social, economic and political environment we live in and form a part of. The growing social demands cannot be met, social differences cannot be mitigated, the natural environment and the state of health of the population cannot improve, the level of knowledge of the population cannot move in a positive direction and we cannot feel good in a new international community unless there is modernization. Thus modernization must be implemented both in society and in economy alike. Social and economic modernization complements each other and may enhance each other's effect. *Human capital is a key factor* in social and economic modernization. The state, the general level of training, the ability to renew and openness to the future of human capital can be decisive from the point of view of Hungary's further development (Bélyácz and Berend, 1997, Berend, 2002, Kopp and Skrabski, 2002). It depends namely on the state of the human capital what a society can or cannot do, *what it can influence or alter in the interest of its development, what potential it can realize and what it can avoid*. The role of human capital is vital in how it influences unstable socio-economic macro-level processes in the interest of social

progress. It is also decisive what forces it can activate in the interest of implementing the changes.

In connection with Hungary's socio-economic modernization I point out the following two issues:

- the stability/instability of macro processes and
- the future orientation of individuals and social institutions.

My focus is on self-organization and the future-shaping power of individuals and small communities. "Factor four" can provide the guidelines for economic modernization, and future-oriented education and training can ensure a solid basis for social modernization.

1. PRECONDITIONS FOR MODERNIZATION

1.1 A precondition for economic modernization: the instability of macro processes

The instability of macro processes provides favourable ground, in other words serves as an adequate background factor, for modernization. I make this assertion on the basis of our former research results that have allowed us to conclude the following: instability and the presence of

chaos, in the mathematical sense, pave the way for novelty (Nováky, 1997). Chaos indicates the end of some previous process; a state of equilibrium reached at a given level of development and organization amid a certain degree of complexity, and marks the beginning of the emergence of a new equilibrium or stable state. The emergence of chaos is preceded by the surging of bifurcation. This reflects that the earlier factors determining the possible courses of growth/development start to lose significance. In the meantime a process promoting the emergence of a new dynamic system may get under way. That allows the prevalence of new structures and the factors determining them and so the development of the economic and social modernization.

In the Futures Studies Centre of the Budapest University of Economic Sciences and Public Administration we examined 20-25 *macro economic indicators* to see how their long-term data series behave, whether they are stable or display signs of instability (Nováky ed., 1995). The indicators examined included the GDP per capita, the volume of investments, the number of dwellings built, the number of economically active population, the number of active wage-earners, the production and gross consumption of electric power, real wages and consumption per capita, the unemployment and inflation rate and changes in the interest rate. For our analysis we *employed chaos calculations* based on chaos theory. It can be shown by simple mathematical means whether the data series are sensitive to minor changes, whether the actual data series of the indicators do in fact coincide with the paths that can be generated mathematically, and what behaviour of the data series (maintenance of the earlier stable state or the emergence of hitherto not experienced new stable states) can be expected in the forecast period. The analysis also anticipates the formation of new paths.

It can be stated on the basis of our analysis of long-term data series of the main Hungarian macro economic indicators that most of the economic indicators display neither chaotic behaviour nor an inclination to that effect. These economic indicators are not sensitive to the minor changes affecting them and change only under pressure from significant forces. The data series of GDP per capita, the number of investments and dwellings built, for instance, are slightly and moderately unstable. Macro indicators sensitive to change reflect not only that they can diverge from a given growth path under minor influences but also that properly applied minor changes can divert them from their old paths onto a new one. With appropriate and well-chosen means of economic policy and social policy their behaviour can be channelled towards modernization.

The Hungarian economy at present is not in a state of chaos in the mathematical sense. It has, however, reached a state that is characterised by slight-to-average instability/chaos, i.e. sensitivity to minor changes can be detected (Nováky ed., 1995). Inclination to chaotic behaviour indicates that *the current driving forces behind growth/development have run out of steam*. The analysis of the indicators also leads to the conclusion that, on the basis of possible and realized growth paths, all interventions failed in the case of stable processes, as the indicators could not be diverted to a more

favourable path. The not really favourable shaping up of slightly and moderately chaotic indicators (e.g. the annual growth rate of the GDP) shows that they could not be diverted to a better path through intervention either.

Linking macro indicators that display different patterns of behaviour can show where we can expect to encounter situations that enhance or weaken chaotic behaviour and how these can promote economic modernization in Hungary. From the modernization's point of view it is important to examine *how economic growth measured in terms of GDP indicators moves together chaos-wise with other phenomena, both with economic and non-economic, chaotic and non-chaotic ones, as well as with phenomena emerging on the different levels of intensity of chaos*. The following conclusions can be drawn:

- the indicators of *the number of investments and economically active population* are both slightly changeable and chaotic in nature; they may promote the increase of GDP growth rate, but in the long term further indicators need to be coupled with these two indicators;
- *the data series showing the number of dwellings built* is also a factor promoting growth; its moderately chaotic behaviour can contribute to the lasting sustenance of GDP growth;
- two branches of fundamental importance to the national economy in an industrial society, *industry and agriculture*, cannot play a significant role in exerting a favourable influence on the GDP in Hungary. The related production indicators do not behave in a chaotic manner, so they fail to renew neither themselves nor the GDP index;
- according to some characteristic indicators, the information society is going through a preparatory phase at the moment: the behaviour of the number of main telephone lines and the indicators of paper consumption do not display a chaotic character; the influence they exert on the GDP will probably be felt in the long term;
- the slightly chaotic character of the indicator for *the gross consumption of electrical power* may infer the possibility of a transition to a new society;
- *the data series for the consumption of households and the changes in real income* as well as *the rate of unemployment and changes in the interest rate* do not show chaotic behaviour; therefore they cannot alter the situation. The latter indicators hopefully bear the potential that their behaviour may become chaotic on a more advanced level of economic development and thus boost the economy.

It follows from the above that in Hungary investment, dwelling construction, the economically active population and gross consumption of electrical power play a more important role among the factors of economic growth than industrial and agricultural production, certain indices of services, the per capital consumption and real income as well as the changes in the rate of unemployment and in the interest rate. All this also indicates that the shift towards a modern economy is still not sufficiently decisive or determined. *Economic modernization, therefore, has begun but is yet to become fully fledged*. The analyses also show that

the number of teachers/instructors and the economically active population may speed up the future renewal of economic growth.

From the point of view of chaos the GDP index and the indices for a negative social and health state move together. This can also be interpreted in a way that *GDP growth means a decline in the state of health of the population*. Work (or extra work) means both a physical and spiritual extra burden on the Hungarian population. The slightly chaotic behaviour of the data series for *suicide and death through self-inflicted harm* as well as *the number of criminal acts committed* and the moderately chaotic behaviour of the GDP show discrepancies. Thus, “work makes the Hungarian population ill” but “dropping out” is not inevitable. The indicators reflecting changeability express the fact of being easily influenced. *An opportunity presents itself*, therefore, it *influences these indices directly*. This means that the factors of growth are not “carved in stone” but can change and be changed. At the same time *new elements of growth have also surfaced*. These are suitable for driving the economy towards an information economy, *launching modernization*. No factor on its own can induce a turn for the better in the Hungarian GDP, but the simultaneous emergence of a number of factors together may exert a favourable influence. Both points of view relating to social policy and economic policy need to be considered for this to be recognised and exploited.

1.2 A precondition for social modernization: the future orientation of individuals and social institutions

Future orientation is an exclusive characteristic and a unique skill of human beings; it enables thinking to be regulated not only by the past and the present but also to reflect continuously assumptions and expectations regarding the future. Decisions and actions of a future-oriented person are guided more by his/her intentions, goals and desires for the future than by his/her experience of the past. It is the future that inspires the driving force of human activity. (Nováky, Hideg and Kappéter, 1994)

Future orientation is person and culture-specific. An individual's biological factors (special brain structures) and psychic/psychological factors (attitudes, endurance, motivation for achievement, capacity for creative thinking, education for a future-oriented personality in which family and education play a leading role) all contribute to the way he/she views and shapes the future. Cultures and societies obviously differ in their future orientation, just as different historical and social eras also vary from the point of view of future orientation. People generally tend to be more future-oriented at times of significant changes such as in the course of a change of era than in periods of tranquillity and no remarkable change.

The components of future orientation are an interest in the future, thinking about the future, activities performed in the interest of the future and expectations for the future. A person, who is merely interested in the future, thinks about the future and formulates hopes and expectations for the future, takes a passive attitude to the future. But if he/she

performs certain activities in the interest of the future, his/her future orientation turns active. Future orientation can be gauged through answers given to questions related to the future.

The future orientation of the Hungarian population has undergone change in the past ten years. This can be traced by means of the questionnaires used in surveys carried out in different years. *The 1992 target sample* indicates that Hungarian people take interest in the future (mainly in that of the family and the children and also because they wish to influence their future); and they assume others are interested in and think about it, as well. The population sample has been thinking more about the future since the change of regime than before, when conditions were basically steady. The future of the family and the world are the two main areas of interest as opposed to the future of the country and the place of residence. The population sample is characterised by short and medium-term thinking, i.e. in the 1-5-year and the 5-10-year period. *Studying, further training and work are the principal activities performed in the interest of the future*. As far as expectations are concerned, the respondents expect a favourable and unchanged situation instead of something more unfavourable than the present.

Sex, age and the place of residence do not constitute decisive elements in *an individual's future orientation*; *qualification, schooling and education carry most weight*. More educated individuals, people with a college degree tend to be more future-oriented than those who left school without taking their final exams. Future-oriented individuals do not expect a harmonious future from and for others but actually do something for it themselves and also look forward to it.

The 1995 nationwide sample shows that the respondents think little about the future. They believe that each individual's fate depends on himself but they can hardly influence their fate. They waver in their trust in the future and many of them fear the future. *Their attitude to the future, therefore, is uncertain and contradictory*. Activities performed in the interest of the future are usually even more work, studying and looking after the family. By the mid-1990s new activities, such as increasing material wealth and caring about one's state of health, had surfaced. We believe that *those who do various activities in the interest of the future are the truly future-oriented people*. It is interesting to note that expectations relating to happiness and finances differ. Progress in material wealth is not necessary for happiness.

A survey carried out among university undergraduates *at the turn of the millennium* showed that they were interested in the future because they wanted to know what to expect (particularly concerning the future of the family and mankind) and because they *wished to influence* it. They believe that others showed interest in the future owing to a sense of insecurity. The undergraduates look to the future with hope, do not fear it and are optimistic and positive. The future interests them in the 1-5-year time span when it comes to their own future and that of their place of dwelling, in a longer period for their family, the 1-5-year and 10-20-year time span for the country and the 20-50-year time span for the world. They not only study, work and

protect the environment in the interest of the future but also *build interpersonal contacts, develop their personality, look after their health, and generally behave in a responsible way. They hope for better things in the long term* rather than in the short term, and believe that they will be happier in 5-10 and 10-20 years than at present. They have a positive attitude to the future, especially as far as their own fate and the future of their loved ones are concerned.

The attitude of the samples of the Hungarian population to the future has changed since the change of regime: the more-or-less unconditional trust in a better future has subsided and people's doubts have intensified; the respondents see their chances for a better future as limited. Ervin László stresses that *a new way of thinking and acting is needed if we are to build an acceptable future: we either join forces or fall.* He asserts that each person can do something for the future and that *we can change the world* (László, 2002). István Kappéter hopes that *humankind can change the world* for the better (Kappéter, 2003). *No social modernization is possible without individuals and companies/enterprises, social institutions that have an open-minded attitude towards the future and wish to do something for it.* Ideas and proposals that differ from the conventional way of thinking are exceptionally important today. Only we can formulate the Hungarian peculiarities that our joining the global world implies and we are the ones most qualified to voice our interests. More than just receive, we must let as many parts of the world as possible have word of our achievements both on the individual and the corporate scale. *It is the creative thinkers and doers guided by a sense responsibility for the future that actually have or may have a future, those who keep adapting to their environment and are able to implement a qualitatively new future that is different from the one anticipated now.*

2. A GUIDING AND SOLID BASIS

2.1 "Factor four" as a guide to economic modernization

Self-organization is what can pave the way for economic modernization in Hungary. Small and medium-size enterprises as well as the small regions do not simply have to be kept afloat but must be *made viable* and an integral part of the whole economy. The solution should not come from above but should rely upon the means of the information society (e.g. e-business) to give a free rein to the future-shaping grassroots initiatives of small communities. This can allow new forms of activity (e.g. logistics) to surface and *the ideas of individuals and civil organizations promoting the development of the area and the larger region to materialise.*

One of the recent reports of the Club of Rome (Von Weizsacker, Lovins and Lovins, 1996) on doubling wealth and halving resource use may serve as a guide to economic modernization. *In other words, "factor four" may become the slogan of modernization.* "Factor four" does not mean the restructuring of the whole of the economy at the same time but *the implementation of "minor" changes in many*

areas, which can be accomplished through good organisation and attention to detail and together may produce a modernizing effect on the economy.

The authors offer fifty examples of "factor four" aimed at, among other things, increasing energy, material and transport efficiency. I believe many of the examples could be implemented in Hungary, too. Among them are the heating and cooling of superwindows with thermal insulation and no energy consumption, using bricks to build terraced houses, energy-saving tomato cultivation or energy and waste-efficient industrial production; all of which could be made part and parcel of economic modernization in Hungary, too. The burden on traffic can be eased, for instance, through videoconferencing to minimize travel, the use of community cars, the creation of "urban villages" where the dimensions and familiarity foster a sense of community. More favourable economic conditions can be achieved through efficient organisation and more attention to detail.

2.2 Future-oriented education as a solid basis for social modernization

We have seen that a future-oriented way of thinking and acting is indispensable if there is to be social modernization. *Future-oriented education* is of pivotal importance in achieving it. According to the conclusion of experts, education in most countries of the world is not future oriented, not open-minded. (Beare and Slaughter, 1993) In theory, *education is future oriented*, as it prepares the people of the future for the future, for work and for partnership relations; teachers are generally receptive to the future; subjects are usually "sensitive" to the future; and the information technology used in education provides variety and mobility.

In practice, however, education is not sufficiently future-oriented; as *the teachers themselves are not particularly future-oriented* (they often look back to the past and stick to the present because they fear conveying information and knowledge that is not yet crystallized). Thus if teachers are not adequately future-oriented, their methods will lack flexibility, lack the teaching of how to think for oneself, how to be creative and how to develop practical skills. Hence difficult pupils are looked upon as a "nuisance", and teaching becomes less open-minded. *The future orientation of subjects is insufficient, too*, because they offer "ready-made", crystallized tenets/knowledge. The connection between subjects often fails to manifest itself. *The equipment used in schools is not future-oriented enough, either*, as computers are usually not up to date, schools are not equipped on the same level and access to computers varies from school to school. Short-term thinking and the weakness of future-orientation in education/training *do not spur the renewal of education and training.*

All this has to be improved if the attitude to the future of individuals, social institutions and civil organisations is to become receptive, responsible and community oriented. It is important that the future-orientation of teachers increase, that there be a shift in attitudes and values, that educational programmes become more open, that education follow

creative curricula, that theoretical and practical training be in harmony and that life-long teaching/learning be the norm (Education - The Hidden Treasure, 1997). The formation of a new type of human being (who is willing to learn, is creative, knows about information technology, rises to the challenge and is an achiever) is a must, as is the creation of a homogeneous knowledge industry as well as the boosting and sustaining of cutting-edge education.

The so-called *partnership education* programme (Eisler, 2002) may be the right path to follow to this end. The gist of this programme is that it integrates three interrelated "core" components: partnership process (how to teach and learn), partnership structure (where to teach and learn) and partnership content (what to teach and learn).

Partnership process provides guidelines as to what educational methods and techniques should be used. It focuses on whether students actually do learn, whether they are cooperative or competitive, whether teachers are knowledge-robots and controllers or mentors and facilitators. It is important that students and teachers be in a partnership relation in the meaningful adventure of discovery and learning. *Partnership structure* means that students and teachers participate in school decision-making and collaborative planning. It is of the utmost essence that the spatial environment of learning not be beset by fear and not be hierarchically structured but be characterised by horizontal relations and the hierarchical order of implementation where power is used to empower others.

Partnership content means that the curriculum/syllabus is instrumental in developing students' theoretical and oral skills, in granting abilities necessary in life for them to become competent workers, parents and members of the community. The syllabus should, by all accounts, prepare students to become responsible, non-violent adults. Emphasis is placed on teaching material being of substance and of truth for men, women and children of different ethnic groups alike.

Partnership education, as a form of *future-oriented education*, can enrich life experience, can improve the state-of-the-art process of learning, critical thinking and future-orientation. Therefore, future-oriented education is of particular importance in societies undergoing transformation, because as a way of thinking acquired in this framework, it may provide a new impetus to a novel way of evaluating the past and sheds new light on a favourably shapeable future.

CONCLUSIONS

Both preconditions for socio-economic modernization – the changeability of economic processes and the future-orientation of individuals – are more or less present in Hungary. This grassroots initiative ensures favourable conditions for linking economic and social modernization, for which the formal framework is provided by the EU and the content by us.

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Zusammenfassung

Der Autor betont in seinem Studium, dass heutzutage in Ungarn sowohl die wirtschaftliche als auch die gesellschaftliche Modernisierung wichtig ist. Zur wirtschaftlichen Modernisierung bildet die Möglichkeit der Änderung von gesellschaftlich-wirtschaftlichen Prozessen die Voraussetzung, während zur gesellschaftlichen Modernisierung die zukunftsformierende Kraft. Die Möglichkeit der Änderung von gesellschaftlich-wirtschaftlichen Prozessen kann durch Stabilitäts-/Instabilitäts-Analyse geprüft werden, dagegen die zukunftsformierende Kraft durch die Zukunftsorientierung der Individuellen und gesellschaftliche Organisationen. Zur wirtschaftlichen Modernisierung kann der „Vierfaktor“, zur gesellschaftlichen Modernisierung der zukunftsorientierte Unterricht Anweisung bieten.

Összefoglaló

A szerző tanulmányában hangsúlyozza, hogy napjainkban Magyarországon egyaránt fontos a gazdasági és a társadalmi modernizáció. A gazdasági modernizációhoz a társadalmi-gazdasági folyamatok változtatásának lehetősége, a társadalmi modernizációhoz a jövőformáló erő jelenti az előfeltételt. A társadalmi-gazdasági folyamatok változtatásának lehetősége stabilitás/instabilitás elemzéssel vizsgálható, a jövőformáló erő az egyének és a társadalmi szervezetek jövőorientáltságával „mérhető”. A gazdasági modernizációhoz a „négyes faktor” adhat útmutatást, a társadalmi modernizációhoz pedig a jövőorientált oktatás, képzés nyújthat szilárd alapot.

The Future of Accounting Expectations and Possibilities in the Integration

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SUMMARY

The prospect of global harmonisation of the accounting standards have seemed far away up to now. Countries with relatively low economic potentials – like Hungary – faced a great many questions when they regulated their accounting rules. Accountancy was regarded as the language of business.

In Hungary there did not exist any unified conception for a system of norms considered as an aim to be followed in the long-run. The change, which involved the re-codification of regulations together with the acceptance of the demand for harmonisation and, was actually an increase in effects, such as corrupt practices in companies and terror attacks, which fundamentally influenced the economy in international terms.

BEFORE THE JOINING – HOW SHOULD ACCOUNTING GO ON?

As on several occasions since 1968, the Hungarian theory and practice of accounting is searching for its identity again. From an outside view the cause of this is the European integration at the moment, although the question is more complex. Of course entering the union raises problems, but handling them would not mean unsolvable tasks in themselves for Hungarian proficients who have been through so much. Nevertheless, not just expectations appear, in connection with joining, but at the same time more far range of things appear in the next relatively short term: demands of external and internal changes which are also related to theoretical bases of accounting practice. In the years past the continuously developed Hungarian proceeding system – here it involves also the native institution of auditing besides accounting – has followed the lead of practice of developed countries quickly. However, significant deviations have become visible in that – and are becoming visible also at the moment – the certain areas could have performed the required steps, and how were they able to judge whether their progress' rate and tendency is right or not. While the defining of targets, in connection with auditing, could be happened relatively unambiguously with the using of international standards, during this time there were not any theoretical base or accepted international experience for

accounting by which it could be supported to depart on the way of unification and closing-up. The causes of this can be found in the norm-system of the international accounting practice and in the significant divergences between certain theoretical approaches. Three categories can we emphasize with the remark that in other opinion we could focus on the distinction of European and Anglo-Saxon regulational methods:

- the directives¹ in the European Union which deal with accounting (with auditing)
- International Accounting Standards²
- the USA's own standards³

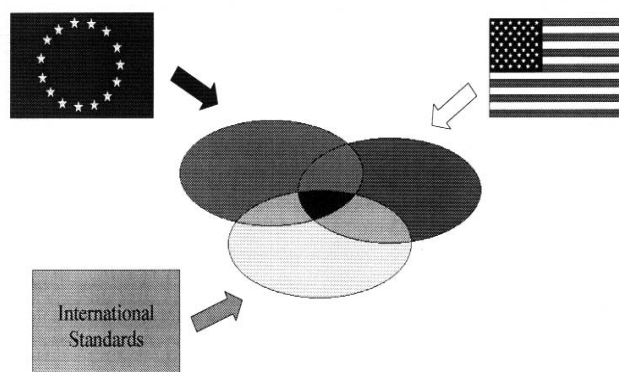


Figure 1. Accounting norm-systems
in the international practice

We face to the next problem. The tendencies of the EU do not provide support as a general rule to the handling of detailed specification. We have to see that the deviation, which characterizes the member states because of continental⁴ and Anglo-Saxon⁵ accounting approach, does not promote building up a unified system. The International Accounting Standards work as principle-based rules, the US GAAPs, which compose the general rules of the USA in very detailed form, are just the other way round, they appear as models which are based on rules. Application of these 3 norm-systems at the same time, which is obligatory in certain domains (Exchange, controlling of affiliated firms...ect.), create theoretical difficulties and increased practical tasks also in certain firms at the moment.

The possibility of the global standard-harmonization has seem to be very distant till now. It has seem to be such a theoretical possibility whose appearing influences are restricted in the enterprise practice. It follows from this, when the application of accounting, which is considered the language of business, was controlled, the countries, which are less significant because of their economic importance – so Hungary as well – face severe „grammatical” questions which did not have unambiguous possibilities. So in Hungary as well, similarly to other European countries’ practice, the instrument system came – the order of procedures which is defined by lawful control –, but till now there has no appeared a unified conception to the approaching of norm-system which could be followed and be defined as a target. The change, which accompanies recomposing of lawful prescription with general accepted harmonization-claim, meant the strenghtening of those influences, which had an essentially effect on economy’s practice reasoning the theoretical composing as well.

NEW FACTORS’ INFLUENCES ON ACCOUNTING – AND AUDITING

In the recent past new factors have appeared between external effects which did not or did in less proportion characterize accounting or any related professional fields’ activity. Instead of the totally view we examine those processes that determine courses in Hungary and the choosing between norm-systems.

The demand on more rigorous control from the side of the private sector and the state

Because of shortcomings of the accounting and the enterprise abuses based on the unsuitable auditing control in the USA initiatives have appeared toward the more rigorous control and to supervise the work of auditors by the private sector or the state. The reason for this is that the present – American – shortcomings of controlling could undermine the enterprise practice that postulates the capital market and investigators confidence increasedly. According to assumptions quality-control, narrowing of other services - which can be offered by auditors -, and composing of new regulations - which make other efforts to re-establish the confidence- are characteristics within the compasses of working out new rules.

New factors of the judgement of the risk and the independence of auditing

The most important question of the modern auditing is the independence which is the essential ethical rule. In the course of the auditor’s work the concept of the risk and the independence are in connection with each other inevitably,

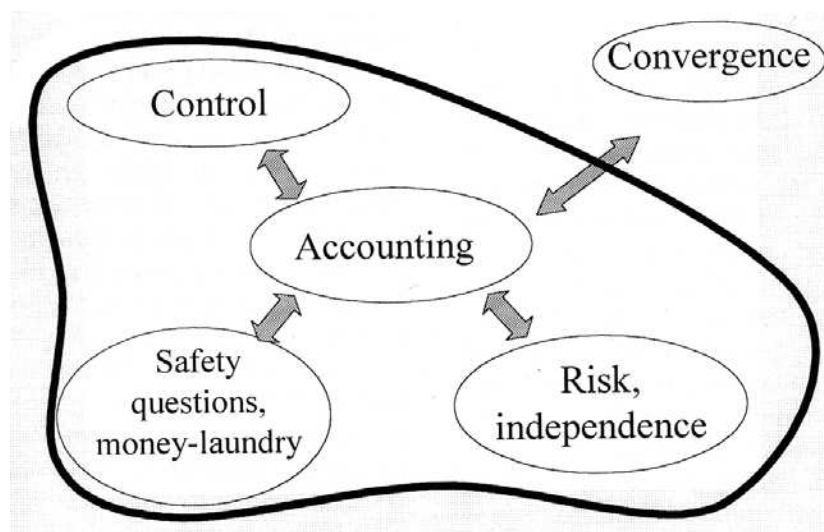


Figure 2. Influences of new factors

but while risk-estimation can be treated with economic-methodological solutions, till the possible moral-ethical problems of independence - distance from management, possibilities and claims related to remuneration...ect. – have some significance beyond economics, they can be treated by its instrument-system indirectly or only in part. The influence of interpretations, common interests of enterprise and auditing, the mentioned abuses and accounting scandals appear in this respect as well.

Safety questions related to accounting and auditing

In economic practice such question treatment has appeared essentially which are far from the field of accounting, in consequence of terror-attach againsts USA increased the demand of controlling and prevention of financing business and transactions related to illegal groups. The „money-laundry” which can be in connection with wide range of activities consider its content and the rules, which aims forcing back this kind of activities, and the unique steps, which spread over the service sector, alter the relationship of the economic participants and influence their connections. It is issue of facts that all over the world resources had to be devoted to high degree to make observance of new regulations, and the financial service and to a lesser extent the commercial sector are unanimously forced to treat disadvantages related to money-laundry. Among other things one of these disadvantages is reporting duty of shady business which can indicate professional mistakes and errors because of the shortcomings of unified interpretation and opinion, no mention the mistrust which comes from the partners.

Appearing of convergency demand toward the different norm-systems

Tight relation to the previous things we can compose like that due them changes have happened in the judgement of norm-systems. It is true for the American opinion as well, which considers the US GAAP the only true faith, and they recognized that professional critics, appearing on the basis of abuse in the recent past, are not causeless. These critics proved that inspite of detailed American regulation there is possibility to manipulate accounting data. American rule-makers had to face the opinion that enterprise-reports, which are based on the international standards, are more suitable for investigators. European countries could be convinced of that it is expedient not to build original standards on EU's directives, but to create the basis of a unified accounting system on a global scale accepting with the International Accounting Standards and harmonizing it with the US GAAP. The EU accepted that the Exchange companies make their reports on the basis of the IAS from 2005 and the EU commits its expansion to companies which are outside of the Exchange. Parallel with it American companies are required to change over to the common regulations till 2007 in the way that they approach American and international rules to each other.

The relative slow process of convergency contains serious tasks, but according to expectations it contributes to increasing of companies' penetration and to formation of unified capital market.

NATIVE REGULATION IS IN THE SITUATION OF DECISION

The direct accounting influences of a part of tendencies in the international practice do not turn into recognizable immediately and unanimously. Down to date member states in the EU can be characterized by accounting variousness which consequence of the relative simple suitability of the directives' comprehensive type. It is such a state which resulted the maintenance of possibly very different accounting solutions. As follows European states could not give answers on the merits for the demands of unifying – which have appeared since 1990's, the most of them assumed the position of „wait and see”. More version occurred among possibilities:

- > developing a detailed rule-system from the directives of the EU
- > wide application of International Accounting Standards
- > acceptance of American regulation
- > „selecting” from the factors of certain norm-systems

As we saw in the description of influences the present tendency shows toward accepting⁶ the International Standards – after its approach to the US GAAP.

Nowdays new influences appearing on international level – listed in the previous part – require decisions from member states as the competent institutions of the EU's and the USA's accounting rule-making make unambiguous with comprehensively composed convergency-expectation. The question tends to that whether Hungarian regulation has to make steps in this situation can be answered by a vigorous „yes”, but after it we have to focus on the evaluation of decision.

BEFORE JOINING – TOWARD STANDARDS IN THE ACCOUNTING

The significant questions have been decided: the native accounting – similarly to the auditing – have moved into such theoretical and methodological tendencies and as a result of this the opportunity occurs to adopt international standardized procedure-systems. The decisions about preparation of regulation were born or they are under preparation⁷, the Hungarian practice will work on the basis of own national standards which are built on the International Accounting Standards. The accounting regulation has to necessarily give something new in comparison with auditing standards system - which is

partially complete equal with the international regulation – to compose independently its requirements which in justified cases has to follow the Hungarian national economy's nature besides accepting the common rules. Emphasis and importance of working-out of International

Accounting Standards will become visible to the participants of the economy in the course of application, the communication role of business' native „language” can accomplish itself within the integration.

NOTES

¹ Principles which control accounting are the nexts: Principle No. 4. (25.07.1978) is about content and formal controlling of capitalistic enterprises' year-report and business statement; as well as about making them public and their auditing.

Principle No. 7. (13.06.1983) is about capitalistic enterprises' consolidated year-report

Principle No. 8. (10. 04. 1983) is about giving permission to people who are responsible for legal auditing of accounting documents

² International Accounting Standards (IAS). It is published by the international professional corporation, it contains explanations, interpretations, but not with obligatory character. The new standards are published by the name of IFRS (International Financial Reporting Standards) .

³ They are the general accepted accounting principles in the USA. The American control is essentially case-law, it is unambiguous and comprehensive, it composes the strict interpretations and their applications on a great scale.

⁴ *The continental practice is built on the Roman statute, the accounting laws are regulated by orders, deductive inference characterizes its approaches, its valuation procedures are a feature of prudence.*

⁵ *Who follow the Anglo-Saxon accounting practice build on precedent-law, they approach questions with inductive proceedings, they consider reality primary.*

⁶ *It was composed in a provision of law in the EU – No. 1606/2002. („IAS”) statute*

⁷ *Ministry of Finance, Hungarian Accounting Committee*

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Zusammenfassung

Die Möglichkeit der globalen Standardharmonisierung schien bis heute fernliegend in dem Rechnungswesen zu sein. Die Länder mit relativ wenig wirtschaftlicher Bedeutung – wie auch Ungarn – standen vor vielen Fragen bei der Regelung des angewandten Rechnungswesens, das als die Sprache des Geschäftslebens gilt. In Ungarn gab es keine einheitliche Konzeption für die Annäherung des langfristig befolgenswerten Normsystems, das als Ziel zu bestimmen sei. Die Änderungen wurden durch die Verstärkung der Wirkungsprozesse (wie z.B. Unternehmenmissbrauch, Terrorgriffe) hervorgerufen, die das wirtschaftliche Leben international grundlegend beeinflussten. Die Änderung bedeutet einerseits die allgemeine Akzeptanz des Harmonisierungsanspruches, andererseits das Neuabfassen der Rechtsvorschriften.

Összefoglaló

A globális standardharmonizáció lehetősége a számvitelben egészen a jelenlegi időszakig nagyon távolinak látszott, ebből következően a gazdasági súlyuknál fogva kevésbé jelentős országok – így Magyarország is – az üzlet nyelvének tekintett számvitel használatának szabályozásakor sok kérdéssel találták szemben magukat. Magyarországon nem jelent meg egységes koncepció a hosszabb távon követendő, célként meghatározható normarendszer közelítésére. A változást, amely a harmonizáció igényének általános elfogadása mellett a jogszabályi előírások újrafogalmazásával is együtt járt, azoknak a hatásoknak (vállalati visszaélések, terrortámadások) felerősödése jelentette, amelyek nemzetközi méretekben is alapvetően befolyásolták a gazdálkodás gyakorlatát.

The Changing Tendencies of Economic Organizations, where are the Borders?

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SUMMARY

The economic competition forces the participants to a continuous adaptation and initiation.

A significant field of the subject is the organizational innovation that is to harmonize the structure, the form and the content.

In this paper we make an attempt to summarise the main changing dimensions and tendencies, which could be perceived based on the last 8-10 years.

Arranging these we can define different subcategories concerned with the structure, the process, the effects and the world of values.

We give a detailed enlargement on the topic of outsourcing and diversity mainstreaming.

ORGANIZATIONAL CHANGES

When the transaction costs theory regarding the corporate theories and the network theory were made dominant by the globalization, the divisional and multi-divisional forms became remarkable in global dimensions concerning the organizational forms. (It is especially true for the economic Triad.)

In the mid-nineties 75 % of the biggest French companies, 76 % of German companies in the same category, and 89 % of British companies were organized divisionally.

Behind the apparent unity innovative organizational forms also appear in large and medium companies: network, cell form, "allied organization", the post-modern and flexible company, the individualized corporation, etc.

The connection between organizational performance and innovation obviously strengthens the fact that competitiveness is an innovational fight today, where inflexible and bureaucratic organizations cannot be successful.

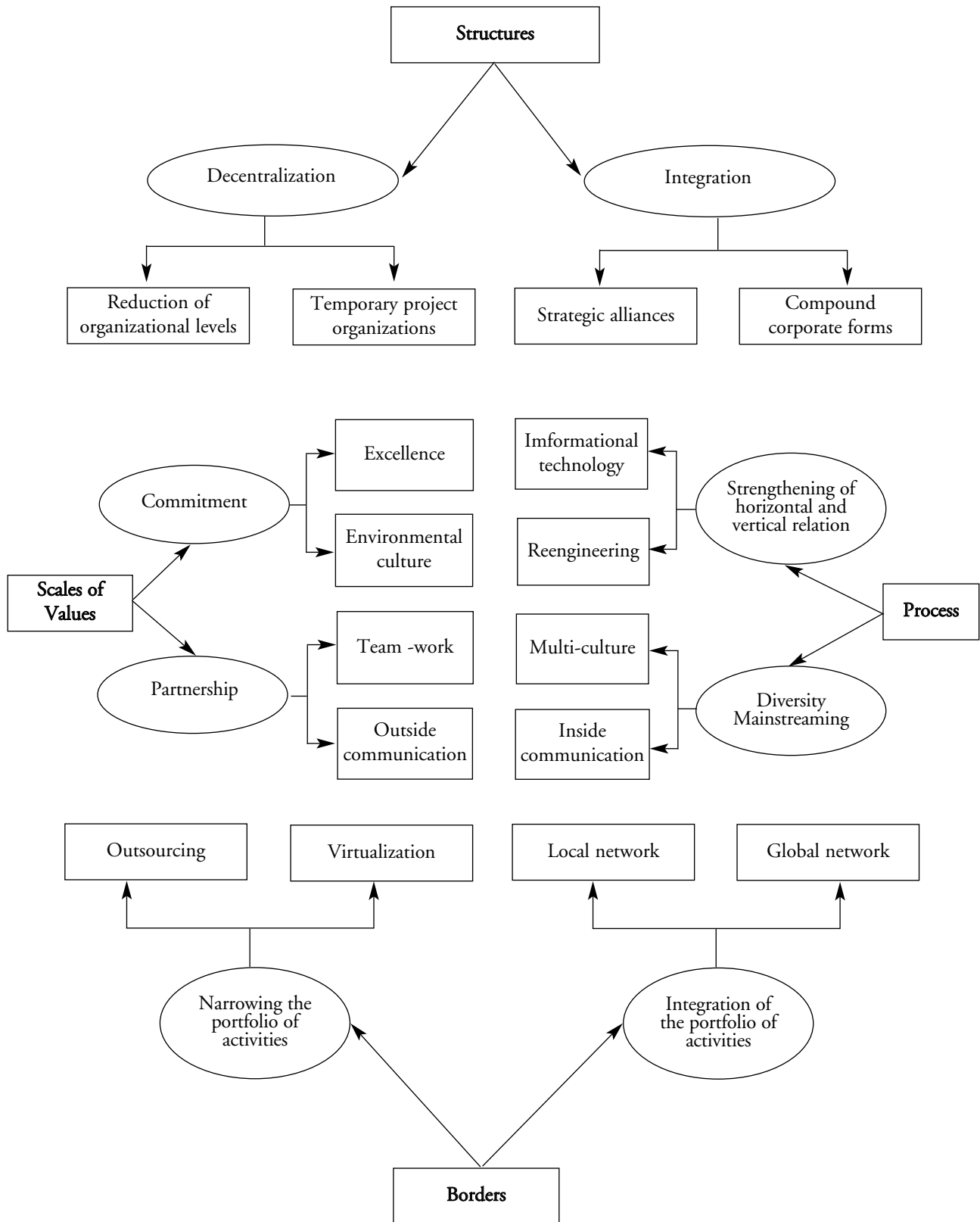
But why have organizations got into this transitive position? As in case of all such questions, this symptom cannot be originated from one reason. The appearance of innovative organizational forms was forced by economic, technological, informational and political factors. In the globalizing economy the strengthening international competition forces companies to think and act at global and local levels. Compulsion for efficiency motivates the economic parties to reduce costs, to concentrate the

resources regionally and to simplify the organizations. The networking and the analysis of transactions costs resulted first in up-valuation of skills (competencies, mainly basic competencies).

Among competencies the knowledge and the value and effects on competitiveness of innovational ability became more dominant. Transnational companies have gradually realized that relief of technical decentralization and formalized network control must be reached by stronger participation of regions and local units and mobilization of their innovational abilities.

The shortening of technological, product, etc. innovational cycle periods also forces the inflexible large organizations to establish more reagent and initiative organizations.

Informational and communicational technologies make possible the establishing and use of networks and additionally such a level of hierarchic control and quality that was unimaginable before. Deregulation also gives an effective impulse for organizational culture and the change of people. These all contribute to develop a new vocabulary regarding the way of thinking and activity of organizational innovation. A new tendency is arising: the noun "organization" is rarely used; instead the verb "to organize" is applied. The realities of continuous innovation are demonstrated by this way. This usage of language makes it more clear that organization is a tool of strategic development. Today it is a respectable fact that organization and strategic planning are complementary activities- even we can go further and say that organizational form becomes



Picture 1
Dimensions of changes

a synonym for corporate strategy. Nowadays the literature of new organizational forms usually overshadows the organization and design, while it emphasizes the strategy, processes, systems, limits and people.

The impulsions for renewing organizational forms are even obvious, but the answers for these given by companies are not so. Certain authors have escaped to the use of ideal types. This way we can get to know the “N” form, cell form, limitless and individualized corporation. These ideal types of researchers are based on case studies about special organizations and non-typical sectors and regions. The changes presented by them are not simply the changes of form or structure, but the dynamic adjustment of organizational forms, processes, systems, limits, values and attitudes, because globalization also means the integration of different cultural elements.

DIMENSIONS OF ORGANIZATIONAL CHANGES

The company structure and organization giving a frame for and itself the competitiveness have always been an important question for the members of competitive sector and researchers. As mentioned above the effect of globalization has strengthened the importance of innovation and multi-cultural factors. According to this, the changes of organizations able for actions can be presented and perceived by the displacement happening in four main sectors (dimensions):

- changing organizational structure
- changing scales of values
- changing processes
- changing borders.

The dimensions of changes are shown in Picture 1.

Changing structures

The changing of organizations has two directions.

Decentralization in field of direct, operative management because

- costs of too many organizational levels and the middle management connected with it are high,
- the way of decision-making is slow because of the inflexibility of multi-stage informational and decisional chain.

The effort to decrease the number of hierarchic levels is a definitely recognizable tendency. (Lean management, flat organizations, lean organizations). Beside decentralization, the horizontal communication and project-work (hierarchy-free form of connection of inside and outside experts) were needed to strengthen.

Integration, which represents the strength of cooperation between the organizations. Globalization is also a symptom with capital-concentration. According to this long-term allied networks come into being, which could lead to owner and organizational integration. The range is fairly wide; it extends from project-organizations through different contracted cooperation to compound corporate integration.

Changing values

The managerial and owner's commitment and partnership are the two most important characteristics of stakeholder theory, which could rearrange the relationship between the members of economy and society in the future.

- The scales of value and openness for environmental culture of excellence results in relieving of exclusiveness of profit-maximizing behavior. According to this, changes must be done regarding product, technology, social and civil members, and sensitivity must be shown in direction of global problems. The introduction of models and awards of excellence make organizations move forward to changes following these scales of values.
- Partnership means humanization of internal and external relations, and application of techniques and operational modes showing assets and cultural elements of management based on participation.
- External relations and the change of intercourse-holding forms mean the acceptance of PR, outside communication, front and back organizations and process-based operation.

Changing processes

The process-oriented operational mode departs from and moderates the functional insulation. The IT gives a possibility for the integration of processes. The intensive exchange of information unites the different parts of organization. This information is basically horizontal concerning its direction of movement, which helps the utilization of synergies of the business world. The information-flows also move outward and cover the suppliers and consumers by the electronic data-interchange (EDI) and other initiations. The establishment of information-intensive organizations strengthens further the innovation process based on participation, multi-centrism and flexibility.

The “hard” infrastructure of information-technology must be supported by “softer” investments into human resources. New managing methods and new types of managers are needed for the new strategies and structures. These new methods of human resource management have three general dimensions in the new organization model: the horizontal networking, the techniques of conveying of organizational knowledge, and multi-cultural integration that is Diversity Mainstreaming, which integrates the other two making them more complete. (it will be detailed later).

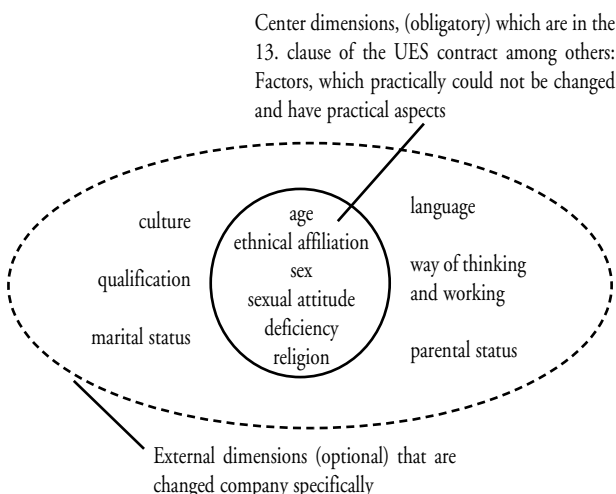
Changing borders

Big size leads to strongly hierarchic organizations and the wide scope of activities extinguishes horizontal relations. The reduction of levels and more interactive processes will be followed probably by a decrease of sizes and concentration on closer activities. This correlation is further strengthened by changing structures and processes, which forces the companies to concentrate on key competencies redrawing their borders in order to increase the real competitive advantages.

The hierarchy and big size can hinder strategic flexibility needed for fight in a strong competition. The effect of size-change is strengthened usually by decreasing of the scope of activities and leaving strategic conglomerations, by which the economic members can concentrate on fields advantageous for them. Besides, on certain product-markets the organizations place out their activities with lower value or less strategic importance of the chain of value. When the better skills or sources are outside of the company, strategic alliances are applied increasingly by companies in order to complement or even to strengthen their own competencies. So, companies draw their borders in closer scope of activities even by forming partner relationships, outsourcing or reducing the scope of activity, while competencies are applied by systems of alliances and the missing competencies are provided by alliances. We will discuss the main theoretical questions of outsourcing in the next chapter.

DIVERSITY MAINSTREAMING

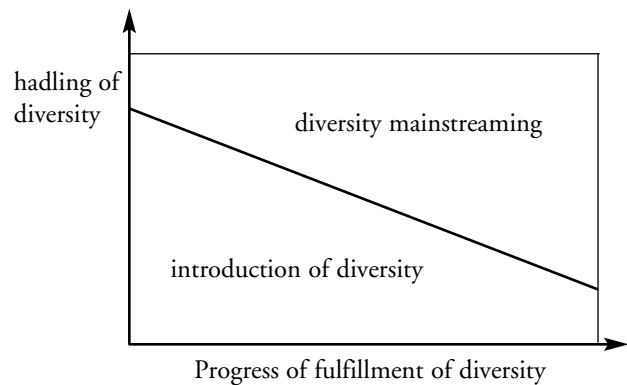
Diversity is the main, and hopefully anti-procrystis and triumphal tendency of European integration. It is obvious, that the cultural and HRM dimensions of the question are important. The dimensions of diversity are shown on Picture 2. The English word “diversity” indicates the symptom what we call “multiplicity”: the fact that people are different in many characteristics. Managing diversity is a tool, which helps to intensify the efficiency of companies regarding the expedient evaluation and active use of differences. Diversity has acclimatized as a guide in the global company management. On account of this, individuality is considered at all activities and diversity is utilized in a proactive way, as a factor of success.



Picture 2
Diversity-dimensions

If diversity is regarded as a new basic characteristic of organizations, then two parallel solutions for accomplishment are given:

- Cultural changes are started by the introduction of diversity as a new conception into an organization, which will last for more years. The introduction of a new concept and a paradigm concerning the already existing concepts will happen.
- The theory of diversity is integrated into the existing structures, processes and contents of the organization during the second method. The business activity and the company system are set for durable use of diversity. This is called Diversity Mainstreaming. The field of human resources and company communication get a special importance here.
- The two methods cover each other, first the introductory later the integrative parts become dominant. (Picture 3.)



Picture 3
Fulfillment of diversity

Main fields of diversity mainstreaming:

- supply of labor-force, external personnel marketing, search for labor, getting into relationships with labors, selection, and putting on work;
- evaluation and support of workers, motivation, payment, and systems of performance evaluation
- education, training, and personnel-development,
- employees relations, work/life balance.

The introduction of diversity and diversity mainstreaming treat and use possibilities derived from differences. For this it is necessary to integrate the personnel functions, connect the HRM elements, and change the mono-culture into the direction of modern multi-cultural organization.

The most important advantages:

External advantages:

- All existing labor-market potentials are exhausted by a differentiated recruiting of labor; the image of employers and the quality of applicants get better.
- More market-segments are occupied, these can be more affected and the customers could be made more satisfied by a more open marketing and a more differentiated communication.
- The image and judgment of companies get better by a responsible and ethical act.
- Markets take branding by diversity that is by replaceable goods, services and job-supply.
- According to experiences, the rate of exchange of stocks of companies managed in a modern way and having a social attitude rises above the average.

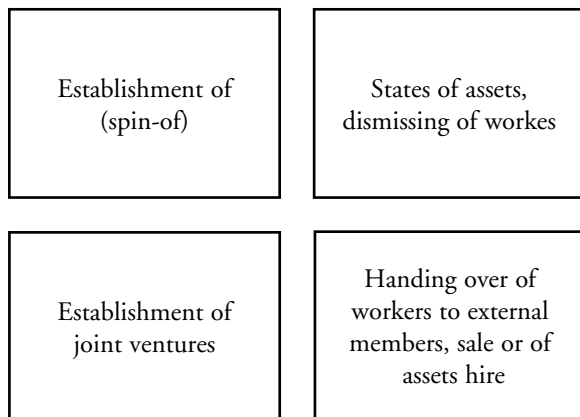
Internal advantages:

- The existing potential of all workers improves in quality and becomes fully utilized in quantity. (increase of individual productivity)
- The appreciation of individuality increases the satisfaction and decreases the number of absences from work and fluctuation.
- Cooperation improves (better productivity of teams, creativity, problem-solving ability, innovation force). The efficiency of organizations increases regarding changes, complex structures, and processes extending to the most areas, etc.
- The cooperation with other companies (cultures) gets easier.

OUTSOURCING

An economic partnership wants to concentrate first on its basic activities and later on its basic competencies during the analysis of the chain of values. According to this the other activities are cut back and outsourced in order to keep competitiveness and focus. So, outsourcing is the action, when a part of or the whole activity is handed over to an external entrepreneur by the company, cutting back or dissolving such capacities at the same time.

It is evident, if we are approaching to this initial definition in a more general way, in case of an activity regarding Possibilities for outsourcing are shown on Picture 4.



Picture 4
Possibilities for outsourcing

It is important to summarize the possible aims and impulsions after giving the general definition of outsourcing. According to the before mentioned the most important initiating factors are:

- Selection of cost-effective solutions based on the examination of transactions costs. (make or buy) It is practical to stop the production and resource-background of those that would be cheaper to buy.
- Maximal utilization of internal resources. The resolution of tight cross-sections can be made by participation of external cooperation in the first step, and then the resource-development can be replaced by outsourcing because of lack of sources.

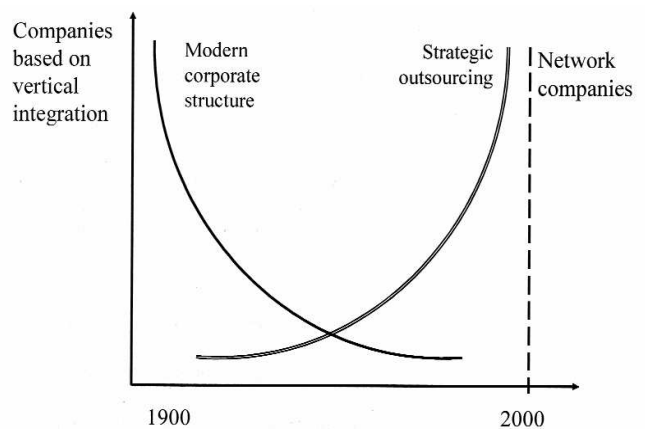
- Homogenization of chain of values, which is not only a cost-effective aspect any more, but it also means the elimination of qualitative and knowledgeable imperfections.
- The supplementation of lack of important competencies is the extension of the previous case for production of a complete technological phase or subassemblies.
- Following fashion -as in case of apply of all organizational actions and systems- is derived from preferring the exteriority elements of the modern tendency.
- Concentration on competencies and important elements of resources and skills.

According to this we can see that outsourcing establishes strategic alliances in most cases. (Not simply outsourcing) It results from this that outsourcing

- assumes long-term business partnership,
- advantageous economic relationship for both parties, synergies,
- and synchronization of motivation
- and based on professional and confidential theory
- and on accepted cultural and business attitude.

It becomes more clear reviewing the change of driving force of company development. (Picture 5.)

Modern companies were characterized by vertical integration at the beginning of 20th century. By the end of the last century decomposition became dominant.



Picture 5
Development of companies from vertical integration
toward network like company-development

So outsourcing is the tool of clearing from the basic competencies of value-creating processes, which results networking, disintegration and integration as well. Sometimes it can reach such a level that some companies outsource all of their functions- with help of network techniques- reducing their own competencies only on coordination and projecting.

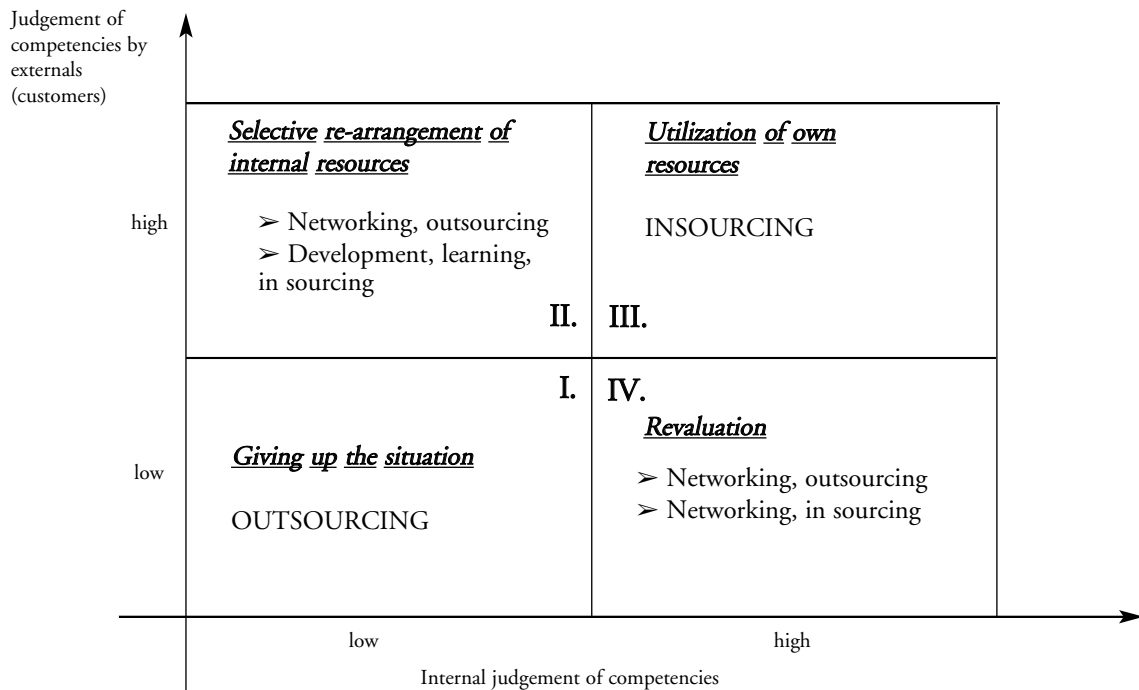
The starting point of competence-oriented managerial decisions is the sum of existing productive resources of the companies. They must adjust not to the regular financial concepts, but to the possibilities of keeping and developing abilities of knowledge. The preconditions of competitiveness are the coordination of resources of the

basic activity, the synchronization of these with market requirements, and for long-term the ability for better and faster performance than the competitors'. The activity must be done better than it can be done by the competitors. Attempts must be made to minimize the differences between the basic activity and the final product because the company could be easily delivered to the suppliers.

Competence connected with the basic activity consists of both touchable and intangible resources. It has therefore a complex and hardly traceable structure, which provides a defense against imitation at the same time. The most important fact is that basic competence is not the result of several functions. Competitive advantages are not provided by the functional performance-differences. The potential of business successfulness does not comprise separate or

segregable elements of activity. The outsourcing of enforced interruptions and tasks based on these encumber the development of constructions being in accord with the most modern technologies.

Competence-orientation concentrates the attention of the company on the customer. When decisions are made on outsourcing, competition-orientation is often confused with customer-orientation by endeavoring mainly on ensuring the advantage over the competitors. The value of company resources depends on not their performance-potentials but the effects of product upon the customers. The duty of value-improvement is that management perceives what kind of skills and technologies the company has and to what extent these contribute to the satisfaction of customer-needs. (Picture 6)



Picture 6

Judgement of in- and outsourcing based on the internal and external judgement of competencies

This relevance makes it possible for the management to concentrate their efforts on the development of those fields which really contribute to the satisfaction of customers.

The possible outsourcing strategies are the followings:

1.) The handing out of duties and resources are reasonable here since the own skills and also the notoriety of those are low and totally non-competitive zones.

2.) Selective development, since the external judgment is good, it is the potential field of competitiveness but the own resources and skills are not properly developed. The organizational learning, inner networking and knowledge-transmission techniques get big importance at searching for the solution. If we can not increase the strength of inner

competences because of a reason then outsourcing is needed.

3.) This field indicates the world of real competitiveness. The upholding and strengthening of further positions are included here. The main duty of management is to keep the company in this field or to direct it here.

4.) The important is to make their own competences accepted through strengthening of marketing and network relations. In case if it does not bring any result, the networking based outsourcing can be the solution.

The advantages and disadvantages of outsourcing are summarized in table 2.

Table 2
The potential advantages/disadvantages
of outsourcing for the user

<u>Potential advantages:</u>	<u>Potential disadvantages</u>
<hr/>	
<ul style="list-style-type: none">– Cash for materials (assets)– Lower costs– Higher flexibility– Getting and keeping of qualified staff is a smaller problem– Reaching bigger technological knowledge and resources– Clearer management and administrative requirements<ul style="list-style-type: none">➤ clear contracts➤ considerable costs– Better concentration on main activities	<ul style="list-style-type: none">– Possibility of losing control from meaning of service– High costs of conversion for outsourcing– Decrease of learning abilities– Safety losses – the main competences can decline– Moving from assuring the infrastructure towards managing the relations– Restrictions regarding competitive products and services– Change of conditions or strategic focus can make the relation outdated– The preconditions can lose their validity fast.

Zusammenfassung

Összefoglaló

A gazdasági szereplőket a piaci verseny folyamatos kezdeményezésre és adaptációra kényszeríti. Ennek megfelelően a kutatók érdeklődési fókuszában az innovatív szervezetek struktúrájának működési módjának vizsgálata áll. Ebben a cikkben összefoglaljuk -az elmúlt 8-10 év bázisára építve- a változások főbb dimenzióit és az egyértelműbb tendenciákat. Az elmozdulások négy fő kategóriába sorolhatók: a szervezeti struktúra, a folyamatok, az értékrendek és a szervezeti hatások változásai. A rendszerezés lényegi elemeinek bemutatása után részletesebben az outsourcing és az ún. diversity mainstreaming témaköreit tekintjük át.

Transition and global Transformation

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SUMMARY

Transition economies form a group of emerging economies according to the author. Using Rostow's take off definition, he places the emerging economies in the phase of modernisation, which is the building up period of the developed capitalist market economy. The transition economies that have changed their systems from planned economy to capitalist market economy are also a part of this category.

The most developed ones from these countries have gone through the transition period, but they cannot achieve modernisation. The modernisation could be achieved by them as EU members. Although the economic environment has gone through significant economic changes since the late 20th century, global transformation as a general framework creates both more chances and more serious challenges for modernisation.

EMERGING ECONOMIES IN THE GLOBAL ECONOMY

Either taking the centre-periphery theory of Wallenstein as a basis for explaining the phenomena of the global world economy or throwing it away, we always arrive at the same conclusion that the world on the turn of the 21st century includes an extremely polarized world economy concerning economic development. At the same time, this world is heterogeneous as there are cardinal differences among regions, groups of countries and countries as far as systems of economy are concerned.

The evolution of world economy shows that the centre was extended continuously as the actual periphery and semi-periphery countries - today labelled as driven by the demonstration effect - made attempts always to break out of their backward position and to improve their economy, with other words, to catch up with¹ the others who were more developed.

The developed countries of every period have achieved different ways of catching up with different phases of

development. The first theoretical explanations which they called early unilinear stadium theories were given by early institutionalists, especially by the German historical school. As we want to illustrate some features of the catching up-taking off processes of our days, we will take the moment of Rostow's modern stadium theory as a starting point. There - contrary to other stadium theories - the author emphasizes 'taking off', which illustrates the emerging of conditions of quick economic growth in different periods. This period is difficult to verify statistically, however, from a historical-logical aspect, it is a period of modernization - with respect to the terminology of Polányi- which assumes change in the substance and form of production. This means a break-through concerning the current level of technology, the achievement of the current modern level of technology, and on the other hand, the extension of modern, capitalist market economy. The existence of these two conditions together create the independence of the system of economy inside the social system, with other words, the basis of economic operation according its own rules, which will give opportunity for the acceleration of economic growth and for a lasting economic growth.

¹ There are very different interpretations about the content and the necessary means of catching up from several aspects that we can not discuss in this article.

In the global world economy the centre-periphery conditions are different due to the well-known fact that a periphery or semi-periphery does not belong exclusively to one developed centre of the world economy, it is dependent of two or three world economy centers, and sometimes the peripheries are exposed to them. With other words, in a periphery and in a semi-periphery, all the three developed centers appear and compete with each other with their own capital and economic power. From this aspect, there is no exclusivity, only dominance.

For those who 'arrive late', in today's globalised world economy, *the take-off will take place among certain circumstances*, and it shows more peculiarities than ever before. During the 2-3 decades after the second world war the attempts for catching up happened exclusively in connection with one of the developed centres, (most visibly the countries of South-East Asia were related to Japan, Finland and Ireland were related to the developed part of Europe, later, the countries of South-Europe to the European Integration which represented the developed countries of Europe and Mexico was related to the USA in America). However, in our days, neither such exclusivity as mentioned before nor dominance is observable. Peripheries and semi-peripheries are entangled by direct foreign capital investments, increasing money transfers and by a global network of money markets. Economic and other factors mentioned before have different sources from different places, sometimes they compete with each other, in some cases they are raising the effect of the other, in other cases they kill each other with either a positive or a negative sign. Capital is needed for development and it can come only from the developed, the donors, the time and measurement of which is determined by the global strategy of investors.

The recipients must adopt. In several cases, the government himself offers advantages for capital import as, for the short run, certain compromises are necessary in order to have a chance for success in the catching up process for the long run. On the other hand, an inverse process, however insignificant, is observable in recent years: governments can limit both forms of demand for 'unlimited opportunities' of multinational capital to a certain extent in favour of the national consumers and entrepreneurs, shortly the 'natives'. By this, we have arrived to another peculiarity, that is, that 'breaking out' or 'catching up' requires a new role from the state. Serious practical and ideological debates are taking place about the extent and the contents of this mission, but the fact and the need for it are essential. (Even the most orthodox liberalism does not deny that the establishment of the majority of the modern market economy's institutions belongs inevitably to the duties of the state.)

It seems that in today's globalised world 50-60 countries, national economies can be found which belong worldwide to this category characterised by attempts of breaking out. The professional language calls these countries *emerging economies* which term has only recently been established.² However, emerging economies have three categories which

are easy to distinguish and even these categories can be classified into smaller groups:

The *first category* covers the countries that are trying to achieve the technical modernisation mainly *among the conditions of market economy*, although this market economy is underdeveloped, market conditions are deformed and contain precapitalist elements. These countries have two general characteristics. First, the creation of the market economy does not result in a democratic state system automatically, quite on the contrary! Second, tensions and inequalities resulting from the dramatic changes in structure caused by the creation of modernisation and market economy are relatively tolerated by the society, the capitalist enrichment and the poverty unimaginable for a European can exist parallel for a relatively long time. Mainly countries of South-East Asia and Latin-America belong to this category and a few other countries of Asia and Africa.

The *second category* of countries are called the *countries of transition* (as we all know, Hungary belongs here). These emerging economies wanted to change over from planned economy (planned economic structure) to capitalist market economy during the modernisation. This makes an interesting point because the change of regime happens from a system of economy that ruled for several decades with a very special status. The special state means in this context that before the system of planned economy these countries existed as part of the capitalist world system, among conditions of market economy in infancy, in the state of periphery or semi-periphery, then. They did not continue their ways as modern capitalist economies but they took a by way where the economic system did not work according to its own market logic and politics 'entangled' economy again. With other words, economy (including structure, growth, ability for innovation, processes of the money market) did not adopt the efficiency criterion of the market but an external criterion and that is why the economy was deformed as mentioned before. *The essence of transition is the process of recreation of the capitalist market economy eliminated by force before and based on private ownership, without which the modernisation of economy cannot be achieved.*

Nowadays approximately 30 countries are regarded as transition countries, the majority of which can be found in Central- and Eastern-Europe and Asia (the successor states of the USSR). This group of countries is significantly inhomogeneous. Some countries – the more developed ones being the semi-periphery of Western-Europe before – have already finished establishing market economy, although we cannot say that their take off is over (Slovenia is the only exception). The other extremity includes countries where practically the former communist elite have preserved not only their economic but their political power as well. In these countries the building up of market economy institutions is extremely sluggish, which causes several problems and significant deformations in the market.

² This term arrived at the general economic vocabulary from finances. Originally, those stock exchanges were labelled by this term that began to 'soar' in the international money markets in countries which began their way of modernisation in the 1990's.

We must emphasize the fact that in the transition countries there is a strong relationship between the development level of market economy and the building up of institutions of modern democracy. In countries where shortly after the change of regime the institutes of democracy were built up, conditions for establishing market economy were born at the same time. Where a real political change did not take place, the economy of those countries does not follow the way of modern capitalist system.

Finally, *the third category* of countries declares and votes for *socialism* as social system. Instead of private ownership they regard *public ownership as the basis of economy*, although they think that the market economy transition regarded as the condition of take off can be achieved among the circumstances of planned economy and the dominance of public property (limited private ownership is not excluded under governmental control). This so-called market socialism was not unknown in the former European socialist countries, especially in Hungary. In this region it was verified historically that attempts for combining planned economy with market economy and reforms for increasing efficiency were unsuccessful. At the same time in China (in Vietnam, Cambodia, Laos, perhaps in Cuba differently to a certain extent from the Chinese method) – among peculiar circumstances – these attempts are continuously carried on, we will see the results later ³. Referring to this experience – in order to clear terminology as well – we will handle this group of countries separately.

GLOBAL TRANSFORMATION AND TRANSITION

International judgment handles Hungary – in spite of Hungary's OECD membership and our EU-integration – as belonging to emerging economies, which warns us to show more self-constraint concerning the judgment of our position. Although we regard the transition process as almost finished, it can mean that the worst is over but it does not mean that we are permanently on a track of development and growth ensuring our place among developed economies.

The take-off – like in other Central- Eastern-European countries - *has not been finished yet*, the process of catching up and modernisation is still on the move. It is well reflected in Hungary's relationship with the EU. Although our full membership can taken as granted, in several fields and from several aspects we can expect a transition of 10 years at least after our EU-accession. Although it does not mean 'second-class citizenship for Hungarians, we must throw away all illusions concerning the assertion that our EU-accession will bring us automatically Canaan. It is no good repeating the rude awakening after 15 years of illusions. We hope that we do not have to live through another shock and the transformation called transition crisis (*Kolodko* [10] uses the term 'from shock to therapy') will be finished forever.

The institutional reforms during the transition have cleared up the way for multinational companies, for direct investments from abroad, which helped the former transition countries *to start their true reintegration* into the capitalist world economy and they could acquire capital that served as primary resource for technical modernisation because of their scarce own resources.

This world economy is no more the world economy the transition countries have once disintegrated. In this point it is worth *connecting the globalisation process with transition*. Globalisation is usually interpreted as a fact characterizing the world economy at the turn of the 21st century. It is not necessary to specify the criteria as they are well known, only the values differ slightly by different authors. It is better to say that globalisation is not a finished process considering the development of the world economy. The best interpretation of globalisation is to consider a process the beginning of which is more or less known and can be described by criteria which are defined relatively well by the academic literature. However, the other end of the period is still unknown. That is why besides globalisation, the term '*global transformation*' is even more often used. Transformation means that more dimensions of the structure of the world economy are continuously changing. The first big wave of transformation is based on the revolution of information technology, on a technical breakthrough, the essence of which is perceptible in our days and its effect on economy and society can be observed in more and more fields. On the other hand, it can also be felt what staying out of this technical revolution or lagging behind means for a country among such conditions.

What is before us can be related to another breakthrough; it is the biological revolution which has only started in our days. The changes resulting from the biological revolution are expected to be far bigger than those of the technical revolution. The outcome of the biological revolution and its effect on society will determine whether mankind will be drifted into disaster or will be able to find a way to a worldwide sustainable economy and social order. The acceleration of changes, the increasing complexity of hectic processes will require a bigger adaptability and ability of reaction from states, national economies, enterprises and individuals than ever before.

In today's globalised economy, *in capitalism market and capitalist private ownership are dominant*; however, *the system is not the same from all other aspects as it used to be 20-30 years before*. It is needles to make a comparison with the former periods of capitalism. To sum up, we can conclude that *today's global capitalism is neither capitalist nor a market system in the same interpretation as it was in our imagination coming from former lectures and our own experience*. In the future, it will differ even more from that... Concerning the position and future of the former transition countries in today's globalised economy – regarding only those countries what will be full members of the European Union until 2007 – it is worth discussing some peculiarities

³ In 2000, IMF has classified 32 countries in the 5 categories of transition countries. Countries put by us into the third category were also included.

of transition that made these countries different from other group of emerging economies.

Our first observation can be that – contrary to the two other groups of emerging economies – *in the adaptation process to the global changes in world economy did not take place gradually. On one hand*, the system of planned economy was autarkic. This did not mean that there were no relationships with capitalist countries at all. However, these relationships were not organic for two reasons. The basic motive for foreign trade was the substitution of import, and, as a consequence of the governmental monopoly of foreign trade, companies were unable to have direct relationship with the market. *On the other hand*, before the change of regime working capital relationships were totally lacking, the moneylender's capital was sucked in by the state, in the form of state monopoly and through central distribution. The political shift meant a prompt total censure, *the global working capital* – in smaller or larger doses depending on the concrete situation – streamed in suddenly into these countries⁴.

The second characteristic feature of these countries is that their *foreign debt* which increased sharply by the '90s *did not continue to rise in such an extent* (contrary to the emerging economies of Latin-America and the Pacific) but some of them were able to reduce it⁵.

This was partly due to the fact that governments were able to finance the debt service using revenues from privatisation and partly because the import of working capital could partly substitute the former need for moneylender's capital. The stock of moneylender's capital came increasingly in the form of private credit as the companies (founded by foreign investors or bought by foreigners) themselves became recipients. *Transition countries* – concerning their debtor-position – *were financially less vulnerable* than other emerging countries, especially those in the Pacific. The reason for this was that the GDP began to rise again after having finished the first phase of transition. This rise ensured only the achievement of the GDP's former level, and the acceleration of growth was not so dramatic, so financing the growth took place more consolidated. That is why the effects of the financial crisis of 1996 in South-East-Asia

were not so drastic. With other words, there was no financial blaze the burst out of which could explode a financial crisis⁶.

However, this will not satisfy us completely. It is worth making thoughts about moments of the past whose experience is well worth taking into consideration for the future. *Lamfalussy* [11] in an expert's report for the European Commission emphasizes that in a place where

liberalisation was carried out in the wrong way in the wrong time, this circumstance played an important role concerning the evolution of the unmanageable level of indebtedness. Consequently, carrying out deregulation in an organized way is not enough, the elaboration of institutions that ensure a balanced macroeconomic policy from the government's part including a strict budget and monetary policy and a low and stable consumer price index is essential. Naturally, this is valid not only for the past but for the future as well. At the same time, the above mentioned facts in connection with global transformation do not warn to cautiousness: balanced economic policy alone is not able to protect the economy completely against unexpected external effects. The problem can come from outside at any time, no single economy (including the more developed ones) is immune against an external infection. That is the reason for the special significance of the integration process moving on parallel – although at different speed and strength – with globalisation in the big regions of the world.

If we want to describe the peculiarities of the (former) transition countries in comparison with a group of today's (modernizing) economies that operated among circumstances of private ownership and certain market conditions before as well, we have to mention two other circumstances. As written before, in these countries working capital was continuously available before as well and it did not come from a one-time-privatisation. Because of the former lack of market economy the start of take off and the start of *the modernisation process shocked the society in the transition economies incomparably more than those conditioned to market economy* as unemployment, uncertainty of existence, the collapse of the (premature) welfare state caused large-scale dramatic changes overnight. The loss of GDP caused by the crisis does not scatter equally in the society. All at once, fortunes never seen before were born from nothing; the differences between incomes appeared irritating in the form of spectacular consumption, etc⁷. If we add still living innervations like 'everyone is equal in the workplace', etc., it is easy to understand that foreign capital was welcomed with sharp opposition and critique from the beginning; foreign capital and foreign employers were labelled as scapegoats by the losers of transition⁸.

Meanwhile the quality and the qualification of the human resources and the niveau of education – combined with the comparative advantages resulting from the low wages available for foreign capital and the relatively developed infrastructure – from several aspects Hungary offered a *more favourable investment field for multinational capital* than numerous emerging economies in other regions.

⁴ The ability of transition countries to absorb working capital varied from the beginning, and still it does.

⁵ The total debt of the economies in the Middle-East and Africa stagnated because they were unable to start the take off process and a change in technology and structure..

⁶ There is no need to explain how much the position of Russia differs from the position of the other European transition economies, which caused the graveness of the Russian crisis

⁷ The differences between incomes not only increased because the majority of society became loser of the switch but the poor had to see fortunes, capitalist and ostentatious incomes of the rich never seen before.

⁸ Meanwhile the emerging Hungarian capitalist exploited his employees similarly or more than the foreign capitalist.

In comparison with the group of emerging countries which attempted the take-off in the frames of a socialist political system before we can say that they are not bound by ideological dogmas and power conditions that mean the limits of private ownership and market institutions, limiting the achievement of the capital function.

It is essential to mention another peculiarity namely the fact that the group of transition countries were leaders in the process of transition which regarded themselves as belonging to the *European culture complex* or at least to the culture complex of one of its developed countries or group of countries (Anglo-Saxon, German, Francophone) with a certain way of development for hundreds of years. Although, these countries have always been the semi-periphery of the developed Europe they were organically related to from several aspects (including the emotional and the 'visceral' dependencies). Consequently, these countries can understand each other relatively well if they remember the state before the isolation half a century ago. These countries were able to get through the transition crisis in a few years and started building up the institution system of modern market economy as the essential condition of modernisation.

To sum up we can conclude that in the past 10-15 years *the institution system of market economy, without which there is no take-off has been built up*. The old structure of economy unable for innovation and the majority of the obsolete capacities have disappeared. For the turn of millennium the 'eminent' transition countries have reached the level of GDP as it was 10 years before, moderated the inflation and their budget deficit. To say the least, the transition has been a success story for these countries including Hungary and the Hungarian economy.

AFTER TRANSITION AND STANDING BEFORE INTEGRATION: THE TAKE OFF IS STILL ON THE MOVE...

As we all know transition has not been an easy job. The process and the short-run-result is Janus faced to a certain extent. Several social tensions and tensions of economy partly mentioned above have been inducted which can be moderated only for the long run. These tensions and problems are simply put on the account of globalization. It is worth clearing up things and differentiating the effects of globalisation and those of transition. This division has not only a theoretical significance. Global transformation – as mentioned above – contrary to transition has not been finished yet, moreover, modernisation and economic catching up with the developed countries is still on the move embedded in this series of changes. The general character of the theme and the limitation of the length of this paper allow us to emphasize only two problems.

Concerning economic problems, at first we will discuss a question of economy and ethics, an irritating phenomenon socially difficult to handle, *corruption*. The government met the proliferation of corruption right after the change of regime and is still an accompanying phenomenon of economy like the battle against it in the political life.

It is worth remembering the annual reports of Transparency International a well-known civil organisation, in which the corruption sensitivity index⁹ of 50 countries with the most varied peculiarities including Hungary are published. Besides the index the GDP per capita and the data of the World Bank are useful to be compared and to draw exciting conclusions of them as well.

The most visible tendency is that the vast majority of countries *least infected by corruption* consists of *developed democracies* with traditions and the *leader countries concerning economic development*. Naturally some exceptions can be found; in their case certain historical, traditional or other factors could give an explanation for this phenomenon.

Another tendency is that *the corruption level of countries which have first accomplished the transition became adjusted to the general trend* for the end of the decade. These countries are situated among the non-transitional emerging economies that are on the same level with them concerning their economic development. It is worth emphasizing the latter fact because after the change of regime there were two circumstances closely related to each other which stimulated corruption drastically. On the one hand, privatisation that offered a sudden possession of fortunes, on the other hand, the reduction of the former institution system (including the corresponding fields of legislation) resulted in vacuum that could become the hotbed of corruption.

The completion of privatisation, the gradual building up and improvement of market economy institutions moderated this ex lex state gradually, and we can assume that this process will continue and our position can be improved as a result of the economic growth in accordance with the international trend.

Consequently, we can state that *basically the appearance and increase of corruption is not the result of globalisation but that of transition*. Naturally, it cannot be said that corruption has disappeared from the world of multinational companies, either. Worldwide we can observe corruption and blackmailing of politicians, abuse of economic authority, etc. However, it cannot be proved that this is an increasing tendency in democracies with more developed economies. Global capital could help these processes in countries where there were problems with constitutionality, democratic institutions are in infancy or lacking and the state and the government is weak and can be blackmailed. *Where the transition is finished, corruption will be normally moderated sooner or later. The accession to developed EU countries standing on the positive pole of the corruption list can help Hungary as well.*

⁹ The corruption sensitivity index is calculated by the consideration of several factors. It is needless to introduce the method as a universal method is valid for all countries.

The inverse version of the above mentioned problem is when effects of globalisation especially the American version, labelled as *Americanization* are put on the account of transition. The essence is the inverse of the above statement: the happenings of the recent two decades corroborate that no group of emerging countries is able to withdraw itself from the cultural influence having economic relations as well. We must emphasize here the role of information technology that began to globalise the 'general taste' from the 70s worldwide, mainly by means of satellite media. This globalisation labelled as MTV-culture or McWorld aims youth above all concerning clothes, music, behaviour etc. The *violent and universalizing effect of aggressive nature of globalisation* that disregards all cultural differences, and differences in lifestyle and traditions between nations *are not the results of transition*. One peculiarity of Americanization in connection with transition is that appeared in the Central-Eastern region

of Europe more heavily than it did in Western Europe. Western Europe got accustomed to McDonald's, Music TV, the 'American feeling' and to the result-orientation regarded as absolute value by American multinational companies more gradually than us. Besides, the development of economy, social solidarity, activity of civil organizations, the continuous and gradual strengthening of integration including the European culture complex and the declaration of peculiar European values caused opposition and providing protection opposed to the total disregard and unification of Americanization¹⁰.

The lack of this protection made globalisation, especially the American version, Americanization penetrate transition countries in a more violent and rapid way with a more serious influence which is supported by the fact that in total, American capital made direct foreign investment in larger extent in this region than Western-Europe did¹¹.

¹⁰ At this point we will mention two circumstances: first, the situation of trade unions serving for the protection of employees' interests, second, the nearly total lack of civil organizations.

¹¹ The partial opening of borders – as mentioned before – begun during the *ancien regime* right as a result of globalization, however, this can be regarded only as the foreplay of social and economic globalization.

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Zusammenfassung

Nach der Feststellung des Verfassers die transitionären Wirtschaftssysteme bilden eine Gruppe der aufstrebenden Staaten. Nach der Rostow'schen Erklärung von take-off, werden die aufstrebenden Staaten in die Periode der Modernisierung gestellt, die ist zugleich als das Vorzimmer des entwickelten kapitalistischen System betrachtet. Auch die transitionären Wirtschaftssysteme gehören zu, welche die Planwirtschaft zu Marktwirtschaft wechselten.

Die meistentwickelten Staaten dieser Gruppe haben in der transitionären Periode gegangen, aber sie konnten die Modernisierung nicht verwirklichen. Die EU Mitgliedschaft kann sie zu der erfordernten Modernisierung verhelfen. Trotzdem hat sich die wirtschaftliche Umwelt in der zweiten Hälfte des 20. Jahrhunderts wesentlich verändert, die Rahmen der globalen Umwandlung hat viele neuen Möglichkeiten und Gefahren im Lauf des Modernisierungsprozess zustande gebracht

Összefoglaló

A szerző megállapítása szerint a tranzíciós gazdaságok a feltörekvő országok egy csoportját alkotják. Rostow take-off értelmezését használva a feltörekvő gazdaságokat a modernizáció szakaszába helyezi, ami egyben a fejlett kapitalista piacgazdasági korszak előszobájának tekinthető. Ide tartoznak azok a tranzíciós gazdaságok is, amelyek a tervgazdálkodásról a piacgazdálkodási rendszerre váltottak.

Ezen csoport legfejlettebb országai már átmentek a tranzíciós perióduson, de a modernizációt nem tudták megvalósítani. Az EU tagság hozzásegítheti őket a megkívánt modernizációhoz. Annak ellenére, hogy a gazdasági környezet jelentős változásokon ment át a 20. század második felében, a globális átalakulás új keretrendszere sok új lehetőséget és veszélyt képezett a modernizációs folyamatban.

Effects of Life Cycle Analysis on Environment and Economy¹

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SUMMARY

This paper summarises the main elements, the methodological developments of LCA, and the steps of the assessment (defining the goal and scope of study, life cycle inventory, life cycle impact assessment and interpretation of the study). It describes the weighting process as the base of assessment, and the different applications of LCA. It also presents a case study for polystyrene and biopolymer packaging, in which investigates the environmental and economic results of comparative LCA - between LCA of PS and Biopolymer. LCA is a decision support tool. It can help to ensure the environmentally sound practices, from a financial aspect it means a new approach to process optimisation. The assessment has been supported by software aids to determine the benefits, the weaknesses, and the IO –LCA shows the economic benefit of the process.

EVOLUTION OF LIFE CYCLE ANALYSIS (LCA)

The aim of the life cycle analysis is to describe, to know and to understand the environmental relations and the possible environmental impacts and to create possibilities for decreasing their effects consciously in the course of the whole life cycle or describing only one stag of the product life, technology or service from the raw material production through processing and use till the final disposal of the product (from its cradle to grave).

The LCA analysis serving for environmental protection, studies the whole material and energy balance of the system and the balance of mutual relationship between system and environment. It differs from the product life analysis used in the business area significantly, evaluating the financial aspects of a product from the birth of the idea till the death of the product [13].

The first LCA studies had been published in the end of the sixties, but the method began to extend in the nineties. The development of environmental sciences and the energy price boom in the seventies played an important role in the evolution of LCA studies. These facts inspirited seeking for technological solutions requiring lower energy and studying the rentability of alternative energy resources (sun cells,

alcohol etc.). An ECO-balance preparation based on the similar principle was developed in Europe at the beginning of the seventies. It primarily served for measuring the energy used for packaging [3]. Debates about the packaging material disposal in the middle of the eighties largely helped developing and spreading the method. The Society of Environmental Toxicology and Chemistry (SETAC) undertake a pioneer role in the methodological development and standardisation of the life cycle analysis (LCA) and life cycle assessment (LCA) [6]. The first LCA study (European guidelines for life cycle analysis) was published in 1993 [1]. K. TÖPFER (Minister of Environmental Protection in Germany) played an important role in making this method popular. He charged the Fraunhofer Institute with a commission about the life cycle of packaging materials in order to establish control for the packaging material basing on the results of the analysis. The established regulation created big debates in the German society [12].

At first, big companies applied the LCA for marketing purposes in order to demonstrate advantageous environmental characteristics. After a while it became a tool for obtaining the environmental friendly etiquette [15]. It played also an important role in revealing environmental problems, introducing more conscious measurements of environmental protection and establishing environmental management systems. In our days, it is an essential tool of environmental

¹ Supported by the National Research and Development Fond (NKFP) project Nr. 4/005/2001.

conscious production, service technology planning and helps measuring environmental performance [4, 7].

The evolution of the method was accompanied by continuous professional debates which contributed greatly to the increase in the method's sensitivity and reliability. These debates inspired software development and the standardisation process largely as well. The standardisation of the method began at the beginning of the nineties. The first standard (ISO14040) was accepted in 1997. 5 standards have already been published, two ones has not been approved yet. The first softwares appeared in 1992-93, for today, the number of them exceeds 30; however, the SimaPro software developed by the Dutch is the most widely used in the world.

The elaboration of LCA may be carried out on three levels, namely conceptional LCA, simplified LCA and detailed LCA, depending on the fields of application [5]. The detailed LCA is the most comprehensive; it is an analysis tool for all stages of life cycle, but it is cost and time consuming, therefore rarely applied. The application of life cycle analysis may be very different:

- > Environmental development of production systems and products,
- > Identification of weak points,
- > Comparing and studying environmental impacts,
- > Development of environmentally conscious management system,
- > Development of indicators for environmental performance,
- > Determination of BAT technologies,
- > Development of criteria concerning Eco-labels,
- > Development of long-term strategies, studying alternative policies,
- > Development of product standards,
- > Marketing and communication relationships, information etc.

METHODOLOGICAL ASPECTS OF LIFE-CYCLE ANALYSIS

The LCA impact study contains four independent stages according to the ISO 14040 standard group:

- > Determination of target and field,
- > Survey of initial and boundary conditions of life cycle,
- > Life cycle impact study
- > Interpretation of life cycle

First of all the clear and accurate determination of the aim of the study and establishing the boundary of the system on basis of reconstructed process tree are all important. The unit of measurement has to be chosen and determined that will be used for basis of comparison. We have to determine the demand for necessary data, requirements, approach of the method and the allocation procedures. All of these have to be given in such a way that the LCA can be applied for all products involved in the comparison especially in case of comparing LCA. The exact determination of the unit of measurement establishes the fundament of life cycle analysis preparation. Characteristics, use and quality of the product

influence the determination of the unit of measurement (e.g. 1 piece, 1000 pieces, 1 kg, 1 m³ etc.), but the chosen unit of has to comply with the aim of the study. The unit of measurement must be clearly defined or measurable. The wrongly chosen unit of measurement may induce wrong decisions and unfavourable processes or products may be preferred from environmental point of view of [9].

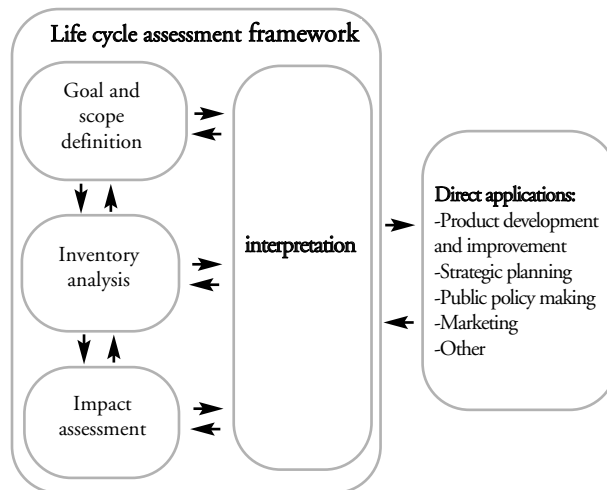


Figure 1. Stages of the life cycle analysis (as laid down in ISO 14040:1997)

Fixing the boundaries of the investigated system can cause several problems in the course of the analysis. The following questions arise where we should draw the boundary of the process and what should be included in the analysis - generally in crossing processes- and what should be left outside the boundary.

The life cycle inventory analysis means the collection of the data related to the process tree and counting procedures giving a quantitative analysis about the input-output side of the whole system from an environmental aspect. We have to emphasise atmospheric emission, water polluting materials, solid wastes, and land use. The aim of the life cycle impact analysis is to identify and evaluate the potential environmental impacts on basis of the life cycle inventory analysis. The first step of the impact analysis is the summarisation of similar effects standing on the output side of the inventory using characteristic factors (e.g. all gases with glass house effect, all kind of acid components, heavy metals, CFC substances etc.), and then reducing the number of parameters through grouping them into effect categories. Data of the inventory may be grouped only in few effect categories. The effect categories will scatter within the whole effect according to their relative importance on basis of reference values. The relative importance of different effects can be given in the normalisation procedure. The results can be summarised by different effect categories as well. The effect estimation of life cycle analysis is a technical, quantitative or qualitative process for characterising and estimating the effect of the environmental load determined in the inventory. In the course of evaluation we have to consider effects on ecology and human health as well: the change of living place, or noise phenomena [6].

The evaluation of results rests mainly on scientific basis though it includes several subjective and social elements as well. Nowadays, there is no generally accepted method for ordering life cycle inventory data to higher aggregation. The weighing of the effect categories can be carried out according to region, geography, and time and risk as well. The ECO-indicator '95 or its further developed version ECO-indicator '99 can be well applied in practice but the final value of the two methods are not comparable because their weightings are based on another principles. The

ECO-indicator '95 studies the environmental damage caused by emissions, meanwhile the ECO-indicator '99 considers treatment of wastes and exhausting of power sources as well. The environmental impacts can be given as the summarised amount of points in both methods. In case of comparison the environmental benefits can be measured in comparison to the reference product basing on the value-difference. Life stages and environmental impact resulting the largest pollution decrease can be determined as well [8].

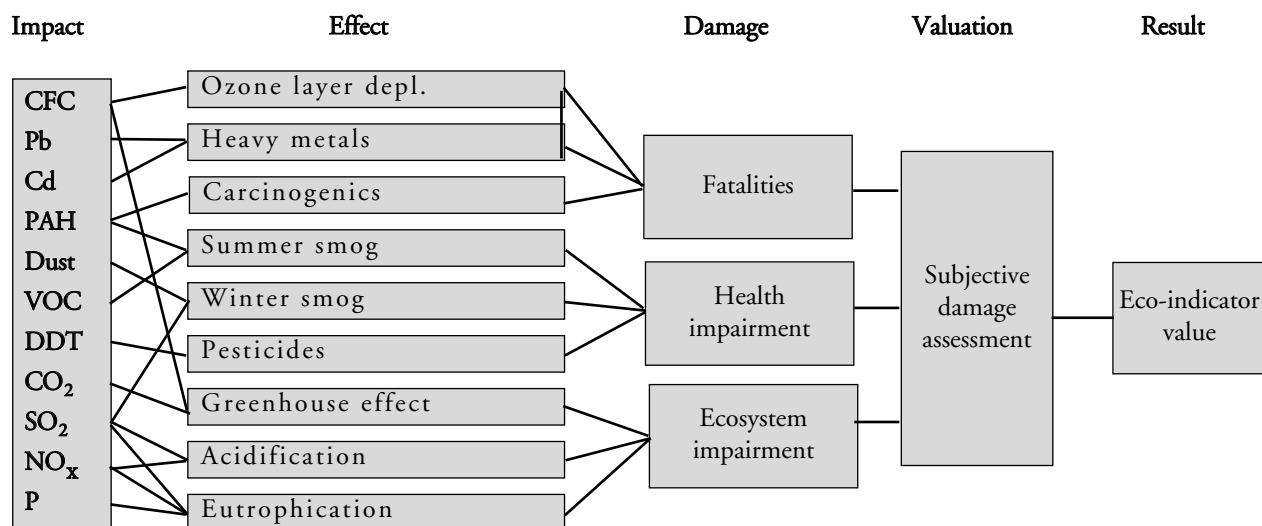


Figure 2. Scheme for the Environmental impact value in case of ECO-indicator '95

Table 1. Weighing factors of environmental impacts in the ECO-indicator '95 system

Effects	Unit	Weighing factor	Criterion
Glasshouse effect	kg CO ₂	2,5	A temperature increase by 0,1°C in 10 years results 5 % damage in the ecosystem
Thinning of the ozone layer	kg CFC11	100	1 fatal case/year/ 1000000 people
Acidification	kg SO ₂	10	5 % degradation of the ecosystem
Eutrophisation	kg PO ₄	5	5 % damage of the Ecosystem of rivers and lakes
Summer smog	kg C ₂ H ₄	2,5	Occurring smog periods, health damage, asthmatic illnesses, in case of old people
Winter smog	kg SPM	5	Occurring smog periods, health damage, asthmatic illnesses, in case of old people
Pesticides	kg akt.total	25	5 % Ecosystem damage
Heavy metals (in air)	kg Pb	5	Pb concentration in blood of children, deviant development, slower learning and ability for understanding
Heavy metals (in water)	kg Pb	5	Cd concentration in water
Carcinogen substances	kg Ba	10	1 fatal case/year/ 1000000 people

Source: [8]

The SimaPro version 3.0 applies the method above, meanwhile the SimaPro version 5.0 carries out the evaluation basing on Eco-indicator '99 where the effect categories are ordered to 3 categories of risk (Figure 3):

- Human Health (HH), unit: DALY, Disability adjusted life years – weighed values of disability resulting different illnesses,

- Environment quality (EQ), unit: PDF (Potentially Disappeared Fraction of plant species) *m² year, and
- Resource (R), unit: MJ surplus energy, how many additive energy is needed for compensating the reduced lot of minerals of the future.

The weighing can be graphically illustrated with the help of a triangle diagram [8] carried out by software automatically.

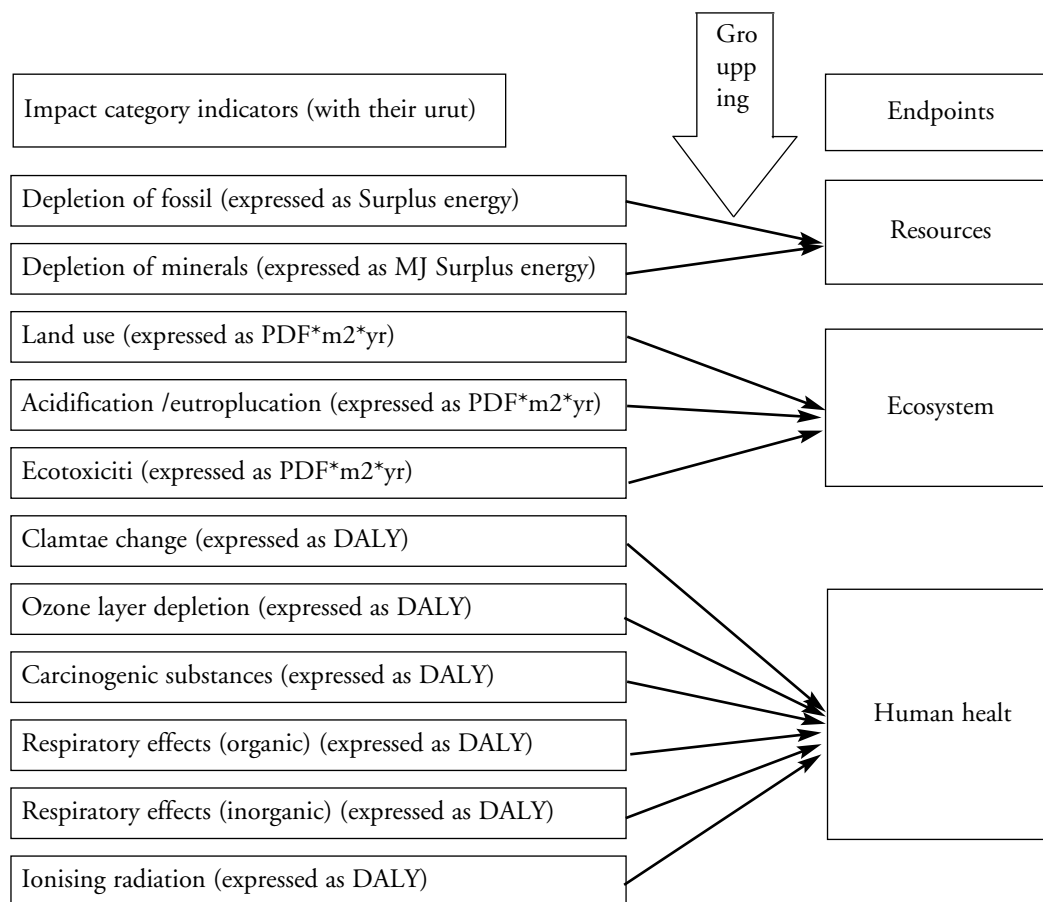


Figure 3. Classification of effect categories in the Eco-indicator '99 method

The description of life cycle shows and evaluates the results according to the application aim and establishes decisions. The critical areas can be determined from the development's point of view. Environmental savings can be well reflected concerning new products.

Within the life cycle effect study the *input-output life cycle effect analysis* (IO-LCA (Input-Output Life Cycle Assessment)) is the result of methodological development of recent years. The aim of the input-output analysis is to make the process analysis easier and to help carrying out life cycle analysis and impact analysis according to the ISO 14040 standard. So the IO-LCA analyses the environmental effects by using a specific methodological approach containing certain economic elements. It defines the system as more complex, the input-output approach appears integrated in the frame of the LCA. The roots of the environmental input-output analysis grew up from the frames of the economic input-output analysis related to the Leontief's works, which showed the pollution in 1970

within the life cycle effect study as by-products of economic activity. They are illustrated in a matrix projected on one unit of industrial product. Later on energy consumption was included in the analysis and there were attempts to calculate the external costs as well. The United Nation Environment and Development Committee (UNEP) developed this model further and elaborated the system of the integrated environmental and economic accounting. The System of Integrated Environmental and Economic Accounting (SEEA) moved from static systems towards dynamic models. However, the environmental analysis basing on IO tables caused problems in case of analysing the consumer's behaviour or governmental measurements and in studying export-import wastes. In our days, this latter one is the less elaborated field [11].

The IO-LCA has strengths and weaknesses and compared to the process LCA. Taking an inventory on data related to "cradle" and to primary resources is extremely important. The exact determination of the system boundary of

processes will cause problems as well, especially in case of complex process trees, containing almost all figures of a factory from labour to machines. The IO-LCA is based on national accounting and informs us about the use of the goods offered by the industrial and service sector as well. At the same time it shows sectorial and national differences related to demand and distribution. The IO-LCA can be used e.g. for calculating sustainable pollution coefficients (emissions, gases with glasshouse effect or toxic substances) by using the results of the pollution matrix related to energy. The strength of the process LCA (P-LCA) is in its peculiarity, namely the comparability of detailed alternatives (e.g. among the plan versions from different environment aspects), meanwhile the IO-LCA simplifies the determination of costs and results economic benefit. The essence of LCA is to look for those product technologies that offer the most advantageous, optimal total environment impact, with other words the least environmental impact per time unit (generally per year) under definite conditions, in such a way that it can be economically acceptable as well. We have carried out such analysis in the NKFP project for biologically degradable newly developed packaging materials.

COMPARABLE LIFE CYCLE ANALYSIS OF PACKAGING MATERIALS

With the life cycle analysis of the packaging materials we wanted to answer the question how large environmental impact could be expected in case of biologically degradable packaging compared to traditional packaging materials and whether their production and use was rentable. We used the SimaPro software for the analysis. We completed this analysis with input-output LCA study as well.

We carried out the investigations for polystyrene (PS) tray and for grain based bio-polymer tray with rigid wall. In order to make a comparison we have worked within the same system boundaries.

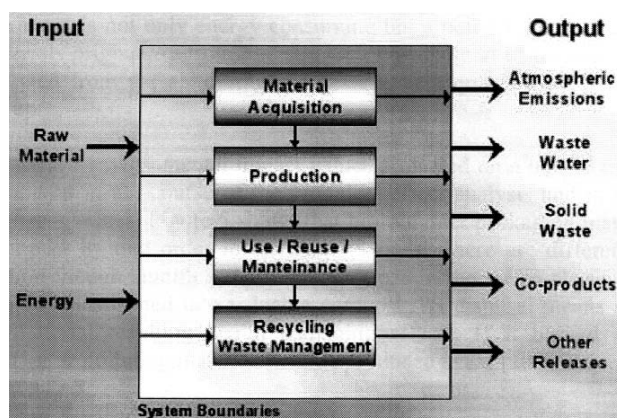


Figure 4.

Process flow sheet for life cycle analysis

Sources: http://www.etse.urv.es/DEQ/web_cat/recerca/aga/English/EntryEnglish.html

Both the life cycle of the polystyrene (PS) and the bio-polymer showed a composite system. The process illustrated above has been simplified in order to make the data-collection and the analysis based on process steps easier, namely *Raw material production- product processing-use –waste treatment*, in separate modules and then projected on the unit of measurement summarised. If the life cycle analysis starts from mineral oil mining, then the cradle of bio-polymers will be agricultural production. For carrying out the analysis we have to know the system very well and a rather whole inventory is needed, because raw material production and raw material processing can result big differences in environmental impacts due to different technologies. Even on the same technology lines –in the stages of production and use - big variances due to material characteristics may arise. In order to follow the differences in the course of the comparing and determining environmental impacts, we have to our calculations on the measured data and figures and on statistical average of technology lines instead of literature data and figures because of reliability. Concerning packaging materials the stage of use means application for food packaging and human consumption where data of industrial usage are major factors. Factory figures are needed even in such cases when both packaging materials are used on the same packaging line because differences due to different material characteristics (different waste, lower capacity) may arise. In case of high similarity –see our investigation - this stage of life cycle can be ignored, if not the measure of environmental impact on the whole life cycle but the difference between environmental impacts of the two products is only the question.

Beyond resource use waste management plays major role. Disposal and treatment of huge amount of communal wastes coming from packaging material are one of the major environmental problems in the analysis. As nowadays the possible ways of waste treatment are different as well (burning, disposal, composting, separation, recycling) lot data and figures based on measurements are needed for a reliable analysis: concerning air and water pollution, transfer (ton km), energy consumption and final waste treatment. Unfortunately, there is a big uncertainty in these fields. The accounting of deliveries related to the life cycle of the product is always an important part of all life cycle analysis. The delivery is not only energy consuming but a polluting resource as well. In case of raw materials originating from biomass CO₂ was the part of the analysis as well, which was extracted from the air during the growth, as a quantity not contributing to global warming up.

The summarised environmental impact values projected on a unit of measurement can be well compared in the course of the modules' effect analysis and in determining environmental impact values. Figure 5 shows that bio-polymer packaging material has an environmental impact by one order lower than PS ones. There are differences in raw material production though significant differences arose in the waste phase. Meanwhile bio-polymer can be transformed into valuable compost; PS disposal means a long term site occupying material resulting health damaging effects. If it burned – though it generates energy – new polluting materials will be produced again [10].

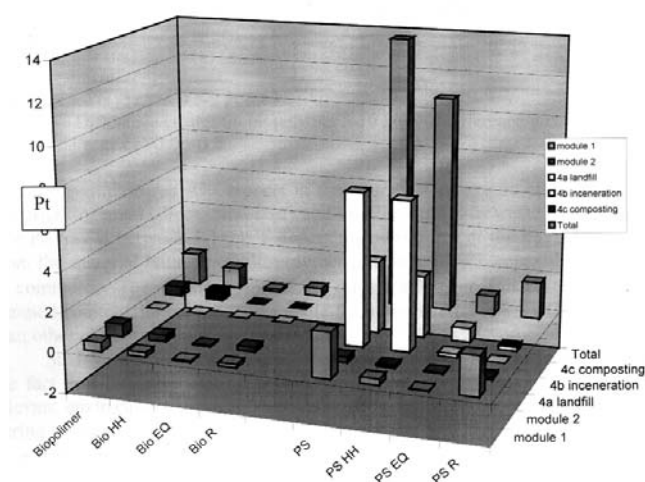


Figure 5
Comparison of environmental impacts of PS
and Biopolymer packaging materials

We can see from the analysis that raw material production has a lower environmental impact compared to the production of trays in case of the Bio-polymer. The opposite is true for PS. The LCA of the polystyrol tray (ECO-indicator '99) showed that the environmental impact is related to waste treatment (75%) and not to raw material production. In the course of waste treatment the disposal means a 3 times higher environmental impact than the raw material production considering a burning ratio of 10%, a disposal ratio of 90% and lacking selective collection of wastes. Raw material production gives 15% of environmental impacts; processing in the production of packaging and processing in food industry represent 10% of the environmental impact depending on the energy demand of operations. Health effects represent the most important environmental load. The LCA results published earlier demonstrated that the biologically degradable packaging materials had less harmful substance emissions and their exhausting resource demands was less as well. Investigations carried out until today showed that composite effect of the production of 1kg raw material was only one tenth of the traditional plastic production.

Table 4 Symbolic presentation of the Environmental benefits

Life stages	Sum of points (Pt)	Health damages (Pt)	Environment damages (Pt)	Resource demand (Pt)
Module 1	○ ○			○ ○
Module 2				
Module 3	Taking not into account			
Module 4	○ ○ ○ ○ ○	○ ○ ○ ○ ○	○ ○	○ ○

Waste treatment

Difference is greater: 0,5-2 Pt for PS

○ ○ ○ ○ ○ Difference greater for biopolymer 2-10 Pt, ○ ○ difference greater for biopolymer 0,5-2 Pt, ○: difference > 0,05-0,5

We emphasised two aspects in the course of economic efficiency considerations: the prices of trays (production cost) and the differences in waste treatment. The net cost of a PS tray is between 4-14 HUF depending on the size of the trays. The price calculated from the material balance of biopolymer is competitive compared to PS trays available in commerce. The smallest size of PS trays made from foil costs 14 HUF/piece. The planned commercial price of trays made from biomaterial is 3,33 HUF/piece which is less than other current products in the market.

Savings due to waste treatment are based on the same facts as in PS study and on the fact that bio-trays can be converted into compost within a short time. We used a relevant environment management study and considered the waste management concept during the evaluation as well [2, 10]:

- The outer profit due to a change from disposal to composting is low: 1-4 EUR/tons in general. When the change happens from anaerobic treatment of selective collected waste to composting we can count on a higher outer profit.

- The profit due to a change from burning to composting is much higher 12-25 EUR/tons.

- The cost-benefit analysis of composting is the most advantageous among the possible waste treating scenarios.

Composting can result savings of 2.1-6.1 EUR/tons, so the risk related to the disposal can be avoided, moreover, compost can be sold as well.

CONCLUSION

As our case showed the best alternative of development from environmental and rent ability aspect can be chosen by using LCA. It is an ideal method for planning the variants having highest environmental benefits and economic savings. The investigation carried out until today demonstrated that the use of biodegradable packaging materials and tools was sensible especially when their proper functional characteristics were even better than those of traditional products of petrol chemistry.

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Zusammenfassung

Diese Artikel zusammenfasst die Hauptelemente und Methodologieentwicklung von LCA und die Schritte der Schätzung (Determination des Zieles und die Kreis der Studie, LCA Bestandaufnahme, Schätzung des Effektes in LCA und Interpretation der Studie). Sie schreibt der Gewichtung des Prozesses, wie die Fundament der Schätzung, und die verschiedene Anwendung von LCA. Sie zeigt auch eine Fallstudie über die Verpackung von Polystyrol und Biopolymer mit der Untersuchung von umweltlichen und ökonomischen Resultaten der komparative LCA. Der LCA ist ein Unterstützungsmittel in dem Entscheidungsprozess. Es kann bei der Besorgung des umweltfreundlichen Praktikums helfen. In der finanziellen Seite es bedeutet eine neue Annäherung für die Prozessoptimierung. Die Schätzung wurde mit Software durchgeführt um die Vorteilen und schwache Stelle zu determinieren. Das IO –LCA zeigt die ökonomische Vorteilen des Prozesses.

Összefoglaló

A cikk az életciklus elemzés fő elemeit, módszertani fejlődését és a hatásvizsgálat lépéseit foglalja össze (cél és vizsgálat keretei, életciklus leltár, életciklus hatásvizsgálat és tanulmány bemutatása). Leírja az elemzés alapját képező súlyozási folyamatot és az LCA különböző alkalmazási lehetőségeit. Bemutat egy esettanulmányt, amely a polisztirol és biopolimer csomagolások közötti összehasonlító életcikluselemzésre vonatkozik. Az LCA, mint döntést támogató eszköz, segíti a környezetbarát gyakorlat megvalósítását, pénzügyi oldalról pedig a folyamatoptimalizálás új megközelítése. A szoftveres elemzés a nyereségek és gyengeségek meghatározását célozza meg, az IO-LCA a folyamat gazdasági nyereségét mutatja meg.

Organisational Self – Evaluation as a Possible Tool of Organisational Analysis

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SUMMARY

The clue of enduring success of companies / institutes is the ability to recognise new challenges betimes and to react them quickly and flexibly. The management however does not dispose of the appropriate tools and methodological knowledge in cases of complex and complicated organisational forming to map fields in critical situations. During this presentation, I examine one of the possible systems of goals and fields of organisational analysis with the help of the organisational analysis process. I constructed a methodological typology; out of the methods I strongly deal with organisational self-evaluation as an effectively applicable method can also be used in the field of organisational forming.

At the time of turbulent environments, the key to enduring success of companies is the ability of recognising new challenges in proper time and responding to them quickly and flexibly. Owing to this, changes in environment compel companies and institutions to change their strategies and structures at shorter and shorter intervals. When it comes to complex and complicated organisational changes (restructuring), the management, however, does not possess appropriate tools and methodology needed to provide structured and regular mapping together with logical structuring for companies and functional fields within the companies in a critical situation. As a result of all functional fields these factors, decisions are often made on an intuitive and individual basis.

This the effective implementation of the analysis proves to be a decisive element of successful organisational change. Due to increasing complexity of company and corporal structures, individual departments and sectors fields cannot be examined separated from each other, but should be looked upon as important elements of a complex system fitting into the "texture" of a complete company. To carry out wilful organisational changes requires giving a systematic consideration to interrelations within and outside companies together with a careful examination and management of interdependences and correlations.

The first part of this paper focuses on the most important stages of the analytical process (Fig.1), which is followed by some relevant methods elaborated in the second part. Finally, I will give a detailed analysis to organisational self-evaluation. The first stage of the analysis involves defining

subsystems i.e. giving a precise definition of the subject of examination. This is followed by defining the state – and operational analysis.

The actual structure of all company subsystems basically determines its own specific operational method and its efficiency together with its limitations whether the structure came about as a result of conscious or spontaneous interventions. To identify and get to know all these factors is a basic requirement for finding an effective solution. In compliance with all these, there exist so-called state-dependent causes of errors that depend on the basic organisational standards of the subsystem under examination. The errors can be detected by comparing then against effectual organisational problem-solutions identifiable in a given field. As for their character, errors can be classified into the category of company resources. Consequently, state analyses focus on contrasting the actual state versus the "ideal" state. In addition to this, the operation of all subsystems is hampered by numerous casual or constant errors that are perceptible and can be subjected to analysing. Defects and errors identifiable from disfunctions and disharmony constitute the group of so-called operational errors made up of occasional functional errors together with recurrent problems due to non-observance of regulations rules and methods determining the operation of the system in the course of day-to-day work. These types of operational errors can be subdivided under the category of loss. The first step to identify them is comparing their actual operational method against the method to be obtained.

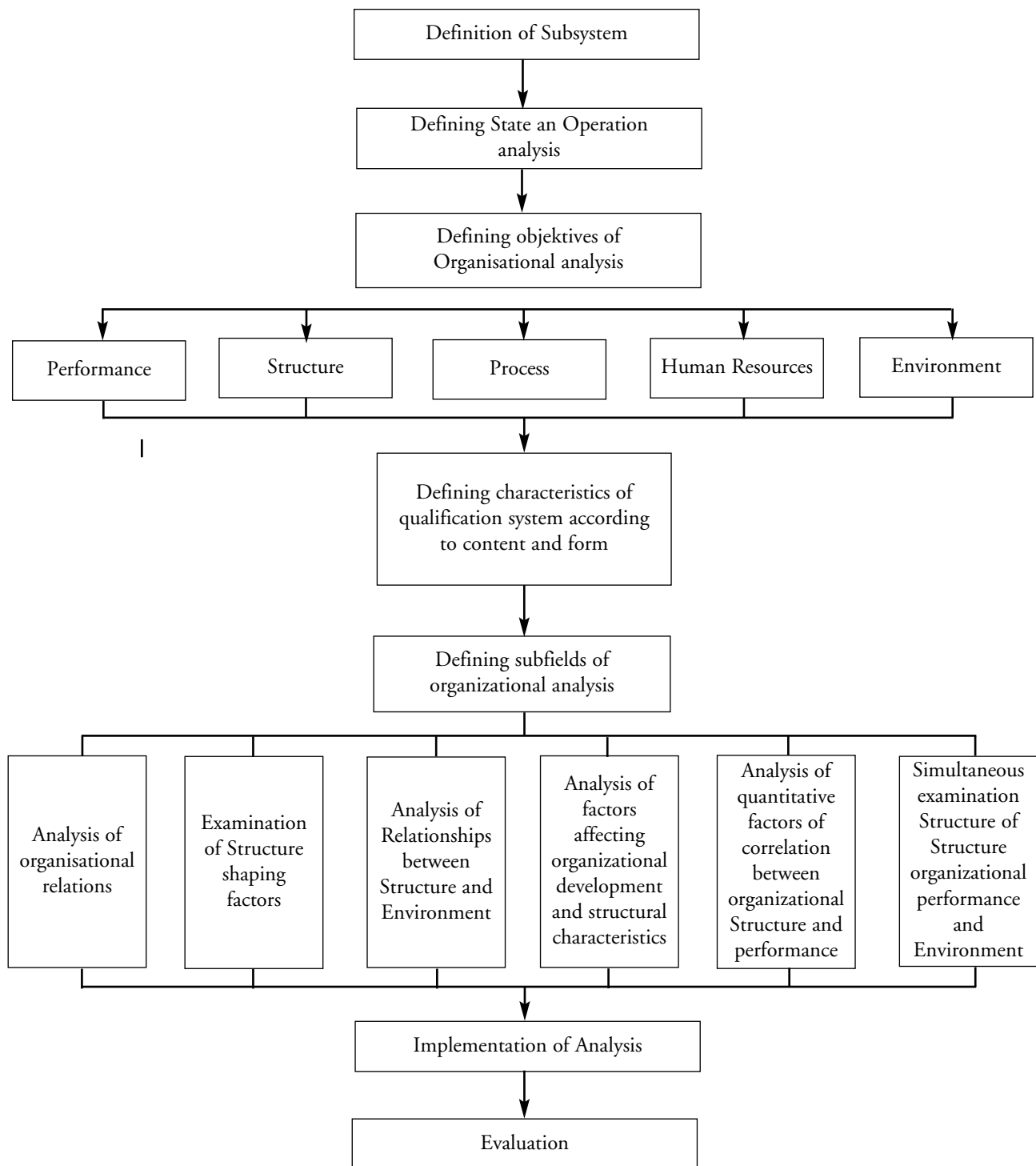


Fig. 1
Process of organisational analysis

Operational analyses while evaluating the harmony and efficiency of the target-task-tool method can also provide information enabling to determine the optimal size of control, change interest and incentive systems and terminate temporary disfunction, meanwhile it is also possible to identify whether the system designer's goals failed due to casual errors or factors inherent in the structure and hindering its operation.

The third step is to set the target definable as a total of internal goals related to performance, process-network, structure and human relations combined with external goals linked with the environment. Each of the above-mentioned goals can occur by itself or in other kinds of combination as well. In order to identify the goals the system analysed needs qualifying.

This task is performed in step 4., when the characteristics of qualification systems are collected, presented and identified. Step 5. determines the objectives of organisational analysis comprising the examination of six subfields:

- > analysis of organisational relations
- > analysis of factors affecting company structure
- > analysis of relations between the company structure and the environment
- > analysis of factors affecting organisation development and organisational characteristics
- > analysis of quantitative factors determining relations between organisational structure and organisational performance
- > analysis of strategy, structure and organisational performance vs. the environment.

You can decide on which of the above-mentioned analyses should actually be carried out only after joining the parameters defining the qualification system with the various subfields of organisational analysis.

Hence, it is obvious that the qualification system assures a two-directional correlation: on one hand it connects the objectives of organisational analysis with the principles of analysis, on the other hand it defines the way of connection

with the subfields of organisational analysis through parameters related to the principles of organisational analysis. When determining the formation method for analytical parameters it should be clarified and considered whether we target at dispersion, cohesion of relations or a general tendency as a final goal because all these factors have an impact on the appropriate method to be chosen. Then the analysis can be carried out, followed by the evaluation according to the mode of representation and interpretability.

Comparative criteria based on analytical process-model

- > Task size
- > Defining and separating state – and operational analyses
- > Presentation of qualification system
- > Defining subfield and objectives of organisational analyses
- > Mode of formation for analytical parameters
- > Evaluation method
- > Conditions of application
- > Auxiliary methods applied in analysis
- > Number of participants in analysis
- > Content characteristics of qualification system

Table 1. presents method – typology based on criteria indicated above

Table 1.

METHODS CHARACTERISTICS	SUGAR METHOD [5]	PALWONS METHOD [4]	VALUE ANALYSIS [3]	TEST[1]
Task according to size	Analysis of subsystem, product groups, branches of business	Analysis of complete organisation	Analysis of complete system or subsystem	Analysis of complete system or subsystem
Dividing State and operational analysis	State	State and operation	State and operation	State
Defining qualification system according to form	Quantitative and qualitative parameters	Quantitative and qualitative parameters	Quantitative and qualitative parameters	Quantitative and qualitative parameters
Defining subfields of organisational analysis	Analysis of factors affecting company structure. Examination of relationships between company structure and environment	Analysis of strategy, structure, organisational performance together with environment	Analysis of organisational relationship and factors affecting development of organisation	Comparison of strategy, structure and organisational performance vs. environment
Selecting parameters for analysis	Comparison of performance indexes in each criterium against total possible score	On a positive – negative ended scale with relative measurement	Function/cost ratio	total score order of importance, ratio

Continuation of table 1.

METHODS CHARACTERISTICS	SUGAR METHOD [5]	PALWONS METHOD [4]	VALUE ANALYSIS [3]	TEST[1]
Evaluation methods	<ul style="list-style-type: none"> – Questionnaires, examination sheets divided according to observation points/units – Spider-diagram presenting observation units 	Presenting on interval scale	Order of variation values	Verbal assessment of order and interval scale
Conditions of Application	Conditions of Application	Conditions of Application	Conditions of Application	Conditions of Application
Applied auxiliary methods	NCM, Sugar-method product structure analysis	Graph-method	Brain-storming, Osgood-Succi method, NCM, advantage-disadvantage analysis	Analysis of questionnaires, examination sheets/tests, problem list and that of conclusions
Quantitative and qualitative parameters	Group and individual	Group and individual	Group and individual	Group and individual
Content characteristics of Qualification system	<ul style="list-style-type: none"> – Prospective expectation of market – Prospective competition – Prospective access to credit and other financial resources – Organisational background of internal management – Performing functions – Profitability and effectiveness indexes 	<ul style="list-style-type: none"> – Requirement for company's appearance – Social and economic formations – Fixed assets – Current assets – Planning – Decision – Organisation 	<ul style="list-style-type: none"> – Product structure – Regulators – Level of preparatory supply processes – Centralisation – decentralisation – Planning method – Interest – Organisational structure 	<ul style="list-style-type: none"> – Product structure – Regulators – Level of preparatory supply processes – Centralisation – decentralisation – Planning method – Interest – Organisational structure

Continuation of table 1.

METHODS CHARACTERISTICS	KIPA METHOD [2]	CHECKLAND METHOD[6]	ORGANISATIONAL SELF-EVALUATION	SIMULATION MODEL
Task size		Sub-or complete organisation	Sub-or complete organisation	Complete organisation
Dividing state and operational analysis	Operation	State	State and operation	State and operation
Defining qualification system according to form	Quantitative and qualitative parameters	Quantitative and qualitative parameters	Quantitative and qualitative parameters	Quantitative and qualitative parameters
Defining subfields of organisational analysis	Analysis of organisational relations and examination of factors affecting relations between organisational and performance structure	Comparative analysis of organisational relationships vs. factors affecting company structure	Analysis of organisational relationships Examination of organisational characteristics Comparison of organisational performance against environment	Analytical comparison of the environment against factors affecting company structure, strategy, company structure and organisational performance
Selecting parameters for analysis	Defining indexes of preference and disqualification	—	Averages, frequency ratio	Causality relationship

Continuation of table 1.

METHODS CHARACTERISTICS	KIPA METHOD [2]	CHECKLAND METHOD[6]	ORGANISATIONAL SELF-EVALUATION	SIMULATION MODEL
Evaluation method	Evaluation of KIPA matrix by iterative Steps and/or assertive graphs	Evaluation of changes born as a result of contrasting conceptual model against reality with a view to derivability and feasibility	Normative (proceeding from left to right) Diagnostic (proceeding from right to left)	Elaborating/mapping complex relationships between structures and simulating their efficiency mechanism
Conditions of applications	—	—	Standpoint system for evaluating (categories) tests and texts	Sufficient company database
Applied auxiliary method	Brain-storming, Pareto, Haris, Guilford, Kendall	CATWOE-analysis	Questionnaires, RADAR	Casuality diagram, Brain-storming, individual mental model, scenarios
Number of participants in analysis	Individual and group	Individual and group	Group	Group
Content characteristics of qualification system	<ul style="list-style-type: none"> – Ratio of performing plan – R+D activities – Maintenance of fixed assets – Investments 	<ul style="list-style-type: none"> – Decision allocation – Applied planning methods – Standard of R+D activities – Prospective market demands 	<ul style="list-style-type: none"> – Inablers (management, strategy, controlling workmates, financial resources, processes) – Results (workmate-, customer- and social satisfaction, key-processes) 	New structures and operational methods

With regard to the limits of this paper I failed to present some very important but, to my mind, better known methods like factor-analysis, cluster analysis, correlation computation, regression computation, mathematical computations with several unknown variables, statistical methods etc. in the table. The following statements, however, apply to all methods without exception.

- Methods meet demands in different kinds of ways.
- Methods provide various approaches for users and comply with the following expectations: adapt to decision-situation, enhance efficiency of decision process, conform to users interestedness and influence relationships generated by users roles, adapt to users way of thinking and communication pattern.
- It can be calculated how efficiently each method is suitable for solving a given problem.

From now on I will focus on just one of the methods presented briefly above i.e. self-evaluation analysis (based on Prize-model). I will examine to what extent methodology applied in analysis more and more widely can be fitted into the process of organisational development. Self-evaluation intrinsically involves regular and systematic screening of activities and results accomplished by the organisation,

which enables the organisation to identify its strengths together with the areas to be improved. By performing the latter goal, qualitative self-evaluation provides a basis for both a future strategy and prepares the way for creating a development plan. During the process of self-evaluation all elements are compared against the model of an ideal organisation. This procedure is basically like “looking into the mirror” and can be concluded and proved that “there is not only one good solution”.

Basic values of self-evaluation

- result-oriented
- focusing on customers
- management and consistent
- management and consistent target setting
- management based on processes and facts
- further training and involving work mates
- permanent learning, innovation and further development
- developing partner relations
- responsibility for the community.

All-inclusive self-evaluation examines nine elements divided into two groups. One of the sets is made up of enablers, where management, strategy, controlling work-mates,

financial resources operational and changing processes are subjected to systematic analysis. The other domain involves results together with analysing workmate-, customer – and social satisfaction with consideration to results of key-processes.

When an activity is examined through elements of enablers, we focus on the following issues:

- > How is an activity carried out?
- > Where are the results of the activity registered?
- > What makes the process itself and its indexes?
- > How is the process analysed?
- > How do we develop the process?
- > Do we make comparisons within or outside the organisation?

In connection with indexes the following issues come up in result analysis:

- > How, when and by whom was the index defined?
- > Is the index characteristic of the process under examination?
- > Does the numerical value of the index make a reliable, rational data?

- > What results have been achieved recently?
- > Are there any parameters related to planning? Is there an accepted fluctuation concerning the value index?
- > What happens, if you cannot reach the planned results?
- > Are numerical results compared?

Self-evaluation method applies RADAR for qualification.

Thus both the complex set of analytical parameters and the logic of analysis derived from analyses enable organisational self-evaluation based on Prize model to be termed as a kind of methodology for organisational analysis.

To sum up, it can be concluded that all procedures applied in methodology-typology can efficiently be applied for partial and all-inclusive organisational analysis. Depending on the inducing elements of organisational analysis, methodology suitable for analysing only one given subfield or their combination may also be sufficient in most cases, however, the main target and task are to consider the complete operational process, since it enables organisational change to be performed, provided it is properly prepared.

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Zusammenfassung

Összefoglaló

A vállalatok, intézmények tartós sikerének a kulcsa az a képességük, hogy az új kihívásokat id_ben felismerik, s azokra gyorsan és rugalmasan reagálnak. A vezetés azonban gyakran nem rendelkezik a megfelelő_ eszközökkel és módszertani tudással ahhoz, hogy összetett szervezetekre, kritikus helyzetben, szervezetelemzést végezzen.

E cikkben a szervezetelemzés egy lehetséges célrendszerét és területeit vizsgálom a szervezetelemzés folyamatán keresztül. Összeállítottam egy módszer-típológiát, s ezen módszerek közül kiemelten foglalkozom a szervezeti önértékeléssel, mint a szervezetelemzésben is hatékonyan alkalmazható metodikával.

The “winners” and the “losers” of Romanian economic transition

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SUMMARY

We tried to reveal some relative „winners” and „losers” of the post-socialist transformation process in Romania. The relative „winner” or „loser” positions of the development regions, of the urban and rural areas, of the different population groups and of the activities of Romanian economy are emphasized by statistical databases. The main territorial „winner” in the 90s was the region of Bucharest, the Transylvanian regions, in general, could not improve their relative positions. One of the „losers” is the rural area, mainly the agricultural activity, which became a buffer for hidden unemployment. The majority of employees, peasants, retired people and mainly the unemployed, are net „losers” in economic respect, at least on short-term. We have to mention that about all of Romania’s population, concerning democracy, are winners.

Key words: changes in transition, differences in regional competitiveness, urban-rural disparity, poverty groups and comparative advantages of sectors.

INTRODUCTION

Romania, along with Albania, was the most centralized economy in Central-Eastern Europe before 1990.

The process of transition to market economy, from 1990-2000, could be characterized by stop-go transformation (Hunya, 1998). The quick and successful transition has been hindered by the inherited state of the economy and by the wrong economic measures taken by different governments. The principle of the gradual transformation has been applied in Romania before 1996, which in practice meant that the losses of the huge state-owned enterprises were compensated from the national budget, motivated by social reasons. In 1991, agriculture began a radical transformation, so the agricultural production cooperatives were broken up and the land of the cooperatives, up to 10 hectares, were returned to their rightful owners from 1949, respectively to their heirs. After this cathartic destruction of a system that everyone hated and which had brought few benefits to cooperative members, the moment for reform was lost (Swain and Vincze, 2001). While the partial land restitution took place, the agricultural machines remained in state property until the end of the 90s, and the privatisation of the state sector in the agricultural sector, which represented 20% of Romanian agricultural land, began only after 1997, so the “gradualism” in transformation prevailed in agriculture, too.

The assessment of the situation concerning the winners and

the losers of Romanian economic transition is a very complex task, which surpasses the dimension of this study. The classical partial equilibrium models’ calculations emphasize the differences in impact of an economy policy measure on producers, consumers, and taxpayers and the proportions of these impacts also depend on the elasticity of demand and supply curves. The winners and the losers changed not only according to the economic policy measures taken in different periods, but could be the determining factor of the social-economic position occupied in the past and in the present. In Romania, the relation network of individuals and interest groups has been and remains important, which makes us be confused about the interdependence between the winner or loser position and the impact of the transition process on this.

In the present study we undertake no more than to show the changes in the direction of more or less advantageous position of the territorial regions, of the economic activities, of groups of population, as well as of the group of employment in the 90s on the basis of statistical data. By emphasizing the regional changes in the 90s I tried to emphasize the “winner and the loser regions” in the transition period. The analysis of employment indicators on urban and rural levels allows us to show to which extent the residents of rural areas, where the private property became dominant, could be considered winners. I studied the changes of relative situation between the younger and older

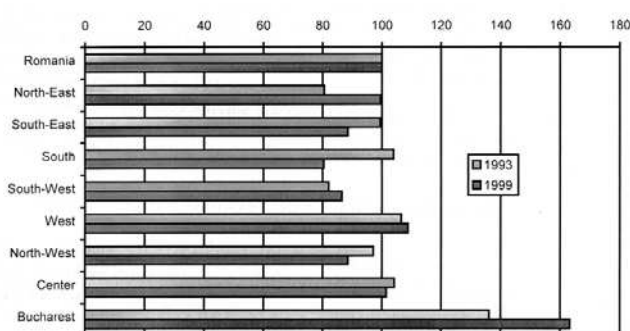
age groups in the transition period as well as the influence of the education levels' evolution on the chance to occupy a winner or a loser position. Finally, I have presented a draft synthesis, based upon scientific reference data, about the changes in the competitiveness of Romanian tradable products in the transition period, thus emphasizing the winning and the losing economic activities. This approach is particularly important for Romania in the phase of pre-accession to the European Union, where competition becomes stronger.

1. THE WINNER AND THE LOSER

TRANSITION REGIONS

Since 1998, a number of 8 NUTS 2 development regions have been established according to the Law 151/1998 on regional development policy. These regions became subject to regional development programmes and statistical analysis during the last years. The Romanian "National Development Plan" contains the issues of cohesion policy and regional development. According to some specialists (Hunya, 1998) "In Romania, there are no significant disparities between regions from the economic point of view, the negative consequences of the actual economic restructuring process affecting, more or less, all country regions". I tried to find if there were "winner", respectively "loser" regions by studying the changes of the following indicators: GDP/capita of population, GDP/employment, and average income per household on regional level between 1993-1999.

The regional differences of the GDP/capita and the changes in the analysed period are represented in figure nr. 1.



Source: [11]: page 142.

1. figure. Regional differences in GDP/capita in 1993 and in 1999

The figures show the great pushing forward of the Bucharest region and the disadvantageous changes for the South region, so we can speak about "winner" and "loser" regions. At the same time, one can notice the growth of the gap between the regions.

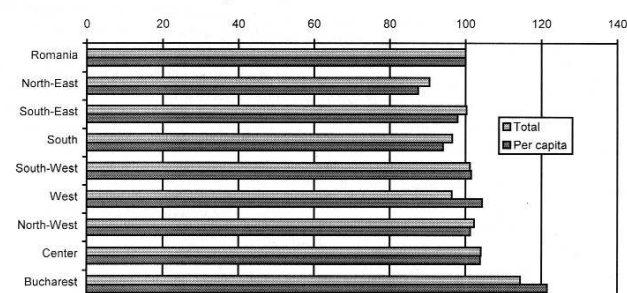
I considered it important to study the changes in the regional level of the GDP/employment, because the dynamics of the labour productivity could forecast the winner or loser position in the future. I made calculations

for the total regional economy, and the main economic activities (agriculture, industry and services) follow the evolution of the labour productivity indicators (Vincze at al., 2003). The main winner of the transition, concerning the growth of productivity relative to national average (83%) is the Bucharest region and the main loser is the South region. If in 1993 the difference between the highest and the lowest regional level of relative productivity was 46.3%, this difference grew to 113% in 1999, so the regional disparity hugely increased.

On the sector level (agriculture, industry, services) the productivity showed very different changes in the amount and in the relative best and worst position of the regions. In agriculture, the gap between the regions decreased to the half, while the agricultural labour productivity in all regions fell considerably. In the industry and the services, the gap in relative productivity between regions tripled during the analysed period, the main winner being the Bucharest region.

The separate study of the changes of the direct factors of productivity, namely the GDP and the employment evolution, showed changes rather in the share of regions and no significant increases in regional differences. The "winner" position of the Bucharest region, concerning the productivity, can be explained by the 20.8% increase of the GDP and by a 34.2% decreasing of the employment. In the "loser" South region, the GDP decreased between 1993-1999 by 21.6% and the decrease of employment was of 17.85%.

In what follows, we used a living standard indicator, on the level of 2001, in order to deeper explore the "winner" or "loser" position of the regions. The regional differences can be emphasized by the average monthly income of households, respectively of a household member (Figure 2)



Source: [13]: page 100.

2. figure. The monthly average income of households respectively per capita of the households in 2001

These indicators also show the most advantageous position of the Bucharest region, respectively the more disadvantageous positions (compared to the Romanian average) of North-East, South and South-East regions.

On the bases of the regional level of the analysed indicators and of their evolution, we can conclude that the negative and positive implication of transition affected all regions to different extents. The net winner is the Bucharest region

where the living standard and the labour productivity is the highest and the last indicator showed favourable dynamics.

2. THE GROWTH OF THE URBAN-RURAL DIFFERENCES

Romania is the most rural country of Central-Eastern Europe. The share of the population, living in villages, is more than 45% and the predominant urban area represents only 1% of the territory.

The rural area in Romania, as in most Central European countries, became the “loser” of transition to market economy. In the following, I will use some statistical indicators to prove the above statement, making a comparison between the value of indicators for rural and urban areas.

First, we compare the average monthly income level of households, respectively on capita of household (1. table)

The distribution of the average monthly income of households on groups emphasizes more clearly the rural poverty dimension, the lagging - behind of the rural areas (2. Table).

In 2001, [AMIGO, 2002] about 68.3% of the rural employment were employed in agriculture, most of them in small subsistence farms. The 4.2 million peasant farms, with 2.5 hectares of agricultural surface on the average could be understood as a form of hidden unemployment in the rural

area [Köllő and Vincze, 1999]. Only 25.9% of rural workers are employees, while 73.1 % are self-employed and unpaid family workers. (3.table).

The significant difference between the structure of employment in the urban and rural areas is not only a present problem; it is feared that it will remain at least on medium term. The difficulty is caused above all by the low education level of the rural population, which creates a weak position of the rural labour force on the labour market. (4. table)

One of the greatest “loser” groups of transition is the one formed by young people from the rural area, especially those with a low education level. The restored land is in the property of elderly people, the non-agricultural jobs decreased both in rural and in urban areas, and this is why a part of the young people are compelled to work in a family farm, while others try to find a job in foreign countries, most of them as seasonal workers [Vincze, 2000], [Vincze, 2002].

In the last decade, the state of rural education deteriorated significantly (5. table). This is caused not only by the lack of qualified teaching staff in rural areas, but also by the pupils’ disinterest and lack of motivation. On the other hand, the pupils are occupied either with farm activities or feel attracted to working abroad.

The low level of education in the rural area became a real bottleneck for increased employment in the future, so the chance of young rural people to find a non-agricultural job have decreased during the transition period.

1. table. The average monthly income of the households in urban and rural area in 2001

	Total income of the households		Income per capita	
	Thou lei	%	Thou lei	%
Total households	5217.9	100.0	1808.5	100.0
Urban households	5659.5	108.5	2002.1	110.7
Rural households	4666.3	89.4	1577.4	87.2

Source: [13]: pp. 30.

Note: 26026,89 lei/EUR

2. table. Distribution of households by average monthly income in urban and rural areas in 2001

Average monthly income (lei)	Total households	Urban	Rural
less than 1400000	26.9%	15.3%	41.5%
1400001-3000000	30.6%	29.8%	31.6%
3000001-7000000	33.7%	42.6%	22.6%
7000001-11000000	6.6%	9.5%	2.9%
more than 11000000	2.2%	2.8%	1.4%
Total	100.0%	100.0%	100.0%

Source: [13]: pp. 30.

3.table. The structure of employment by area.

	Total	Urban	Rural
Total employment– thou.persons	10697	5019	5678
Distribution by professional status-%			
Employee	55.8	89.5	25.9
Employer	1.2	2.1	0.5
Self-employed	23.6	6.2	39.1
Unpaid family worker	19.1	2.2	34.0
Member of an agricult. holding or of a cooperative	0.3	0.0	0.5

Source: [10]: pp.22.

The figures prove the worsening of the structure of education level in the group aged 15-24, in comparison to the group aged 25-34, respectively 35-49, which created a lag in what the future of rural people is concerned.

3. THE IMPOVERISHED GROUPS OF POPULATION

If we try to find the “winners” and the “losers” on the level of the individual or the group, we can provide examples for both categories. It is enough to look at the new residences or at the modern cars on one hand or to look at the beggars as well as the homeless on the other hand.

Mostly after 2000, Romania began the privatisation, the restructuring or liquidation of the big state-owned enterprises with huge losses. This process resulted in a further increase of the unemployment rate (10.5% in December 2000), which on short term could certainly be added to the “loser” group. The share of population living under the poverty level in 2000 was 44% [Georgescu, 2002], mainly unemployed persons and elderly single persons in rural areas belong to this group.

According to the World Bank estimation, [14] the income level per capita in Romania could achieve 50% of the average EU income if Romania is able to sustain in the next 20 years a continuous and relatively high growth rate in the economy. This expectation is very unlikely to happen due to the fragile equilibrium of the Romanian economy, under the circumstances of a world economy in recession or stagnation.

4. THE ECONOMIC ACTIVITIES OF THE “WINNERS” AND “LOSERS”

The transformation process that began in 1990 generated important changes in different sectors, economic activities, respectively in the relative importance of enterprises. With Romania's accession to the European Union, the

competitiveness will be the most important criteria of the “winner” or “loser” position of companies and products. The mobility of resources, mainly of the labour force, from the lower to the higher efficiency sectors and companies has to increase. This process of accommodation, with low professional and geographic mobility of Romanian labour force will generate on short term new “loser” groups. This sacrifice could be interpreted as a condition to become a “winner” on the long term, but this explanation does not diminish the present-day difficulties.

The classical way to emphasize the “winner” and “loser” economic activities is the analysis of the foreign trade evolution. A comprehensive study [Dăianu et al.,2001] explained the comparative advantages based upon the cost of labour force in interdependence with labour productivity in the 90s. In this approach, the “loser” economic activities of transition were agriculture, the mining and quarrying industry, the chemical industry, the synthetic and artificial fibres industry and the furniture industry. In the group of the “winners” we find the wood exporting industry, the enterprises that produce high technology products and mainly those with service activities. In the manufacturing of textile, fur and leather industry, we have a special situation in the 90s. These branches could be considered to be “winners” on short term, but in what their dynamics are concerned, they head into the direction of “losers”, with their low labour productivity and increased labour costs.

The accession to the EU in May 2004 of the majority of present CEFTA countries will create new difficulties for Romania, our country having to wait to join the European Union.

CONCLUSION

The outline image approaches the “winners” and “losers” issues only in the narrow economic sense. A more democratised socio-political life for Romanian residents could be the subject of another paper. In this large sense, the majority of the population are “winners” and it is important not to forget this.

5. table. Education level of the employed population in the rural area in 2001 by age groups

	15–24 year	25–34 year	35–49 year	50–64 year	65 year and more
Rural – total	100	100	100	100	100
Higher education	0.7	2.5	3.0	2.4	0.3
Post high school and foremen education	1.1	1.6	2.0	2.1	0.4
High school education	19.8	43.3	25.8	4.9	1.2
Vocational and apprenticeship education	24.4	29.7	31.2	12.6	2.3
Secondary I or II Cycle	45.4	20.0	31.8	42.6	28.6
Primary education or less	8.5	2.9	6.2	35.4	67.2

Source: [10] page 219, own calculations

6. table. The changes of the average real income (1990 = 100)

	1990	1991	1993	1995	1997	1998	1999	2000
Wage index*	100.0	81.7	59.4	66.5	56.3	58.2	56	58.6
Average pension index**	100.0	77.5	56.5	61.2	49.7	48.8	47.6	43.9
Average pension and average net wage rate**	44.7	45.1	45.2	40.0	40.0	36.2	41.1	39.8
Agricultural income index***	100.0	53.4	31.9	37.9	35.6	32.8	27.9	28.3
Price index	100.0	352.6	4292	9353	33077	52624	76728	111767

Source: * [11]: pp. 131, ** [16]: pp. 96, *** [11].

4. table . Education level in urban and rural areas in 2001

	Total	Urban	Rural
Higher-, post high school and foremen education	8.6	7.9	0.7
High school and secondary education	70.4	43.1	27.3
Primary education or less	21.0	4.5	16.5

Source: [10]

ANNEXES

Annex 1. The GDP/employment by regions and sectors in comparison to the national average (%)

	Total			Agriculture			Industry			Services		
RO	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
NE	86.93	102.81	118.26	96.59	89.73	92.90	88.60	90.87	102.55	94.49	136.10	144.04
SE	101.38	90.73	89.50	116.12	114.16	98.31	107.62	107.65	100.03	92.50	79.65	86.10
S	103.33	80.90	78.29	102.08	100.97	98.91	111.42	87.91	78.90	103.62	82.45	79.57
SW	82.46	81.57	98.92	63.55	90.17	41.90	112.57	117.37	104.26	91.79	77.44	84.37
W	104.67	106.93	102.16	129.87	123.88	95.39	101.64	89.27	87.83	90.80	103.39	113.86
NW	93.10	82.35	88.45	88.87	88.14	99.18	89.05	82.30	92.41	105.29	88.53	84.08
C	102.80	94.88	92.30	118.47	111.00	93.70	90.48	86.73	95.85	100.46	86.47	86.07
B	128.78	193.81	150.49	125.17	99.20	79.25	100.94	158.48	157.01	110.59	130.88	118.35

Source: [15], own calculations

Annex 2. Changes of the GDP/employment between 1993 and 1999 by regions and sectors (%)

	Total		Agriculture		Industry		Services	
RO	121.90	8.01	67.60	18.96	110.27	7.67	158.29	17.81
NE	144.16	13.50	62.80	17.98	113.09	8.57	227.99	35.50
SE	109.10	9.17	66.46	18.73	110.31	10.56	136.29	14.27
S	95.44	5.66	66.87	19.24	87.01	8.93	125.95	12.03
SW	120.58	9.78	95.93	22.08	114.98	6.79	133.55	13.94
W	124.53	8.18	64.48	20.53	96.86	7.65	180.23	22.32
NW	107.81	7.26	67.05	23.17	101.91	8.24	133.09	16.30
C	112.51	9.54	63.35	23.70	105.70	12.10	136.24	14.77
B	183.45	19.80	53.58	21.72	173.14	16.00	187.33	21.98

Source: [15], own calculations

Notation: $W_{kj}^t = \frac{GDP_{kj}^t}{E_{kj}^t}$ - labour productivity in region k , in economy activity j , in year t , where $k = \overline{0, 8}$

($k = 0$ the country level and $k = 1, 2, \dots, 8$ regional levels), $j = n, a, i, s$ ($j = n$ total economy, $j = a$ agriculture, $j = i$ industry,

$j = s$ services) and $t = \overline{1993, 1999}$; $r_{W_{kj}}^t = \frac{W_{kj}^t}{W_{0j}^t}$; $r_{GDP_{kj}}^t = \frac{GDP_{kj}^t}{GDP_{0j}^t}$; $r_{E_{kj}}^t = \frac{E_{kj}^t}{E_{0j}^t}$; the ratio between the regional and the country level of

indicators, $I_{W_{kj}}^{99/93} = \frac{W_{kj}^{99}}{W_{kj}^{93}} \cdot 100$; the index dynamic, 1993-the basic year, $V_{W_{kj}}^{99/93} = \frac{\sigma_{W_{kj}}}{\overline{W_{kj}}} \cdot 100$;

coefficient of variance: $v_{PIB_{kj}}^{99-93} = \frac{\sigma_{GDP_{kj}}}{GDP_{kj}}$

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Zusammenfassung

Wir haben versucht, die "Gewinner" und die "Verlierer" der postsozialistischen Übergangszeit in Rumänien hervorzuheben. Die "Gewinner", beziehungsweise "Verlierer" der Entwicklungsregionen, der Stadt- und Dorfgegenden, der verschiedenen Bevölkerungsschichten sowie der verschiedenen volkswirtschaftlichen Zweige wurden aufgrund statistischer Kennziffern charakterisiert. In den 90er Jahren stellte die Region Bukarest den hauptsächlichen "Gewinner" dar, während die Siebenbürger Regionen ihre relativen Stellungen nicht verbessern konnten. Die Dorfgegend, vor allem der landwirtschaftliche Zweig, welcher eine Knautschzone der verborgenen Arbeitslosenzahl darstellt, sind "Verlierer". Die Mehrheit der Arbeitnehmer, der einzelnen Bauern, der Rentner und vor allem die Arbeitslosen sind "Verlierer" der Übergangszeit, zumindest auf kurze Dauer. Wir müssen jedoch bemerken, daß der Großteil der rumänischen Bevölkerung einen "Gewinner" in Sachen Demokratie darstellt.

Összefoglaló

A romániai poszt-szocialista átmenet „nyerteseit” és „vesztéseit” próbáltuk feltárni. A viszonylagos „nyertes” és „vesztes” pozíciókat statisztikai adatok alapján állapítottuk meg a fejlesztési régiók szintjén, város-falu vonatkozásában, a különböző lakossági csoportok esetében, valamint a nemzetgazdasági ágazatokra. A 90-es évek fő területi „nyertese” a Bukarest régió, az erdélyi megyék nem tudtak javítani relativ helyzetükön. A vidék „vesztesnek” tekinthető, és különösen az agrár ágazat, amely a bújtatott munkanélküliség tere lett. A fizetésből élők, a mezőgazdasági gazdálkodók, a nyugdíjasok és különösképpen a munkanélküliek gazdasági értelemben „vesztések”, legalább is rövid távon. Megjegyzendő viszont, hogy Románia népességének nagyrésze a demokrácia vonatkozásában nyertes.