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Competitive spirit in Hungary **in light of the accession to the European Union**

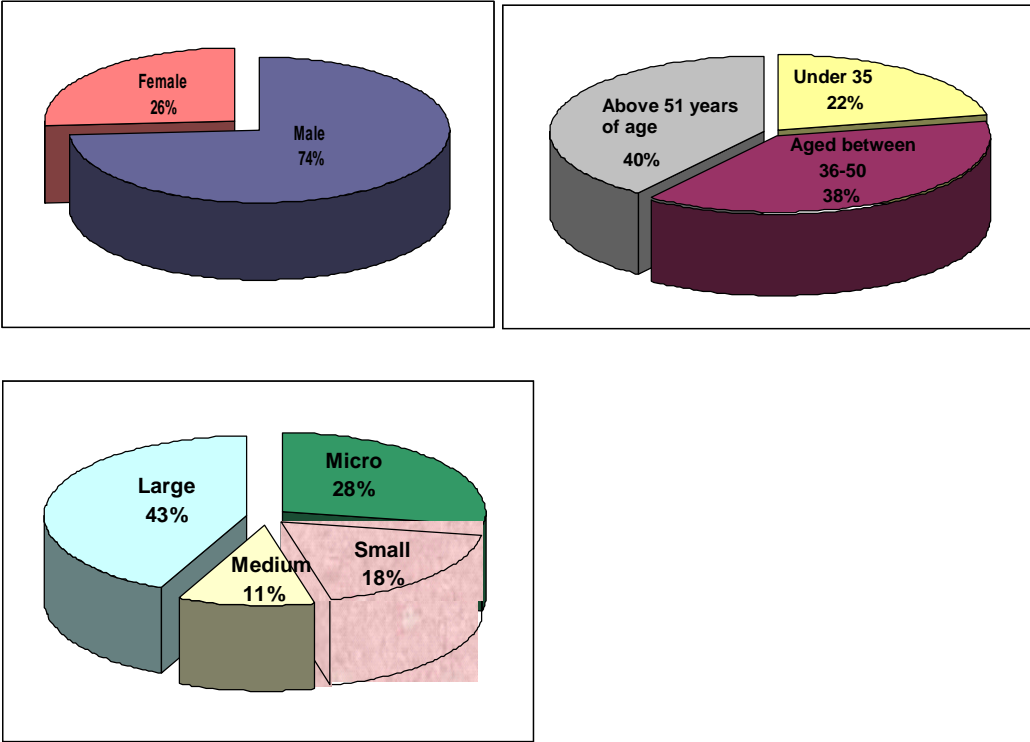
This paper has been developed as part of an extensive research project entitled: “The individual, social, institutional premises of competitiveness”¹. The goal of this research was to show: *to what extent the economic behaviour characterizing command economy transformed into competitive attitudes after the change of regime*². Do economic actors respond positively to the arrival of foreign competitors, or do the old xenophobic, anticompetitive-attitudes still dominate? How does state intervention influence competition?

Even though in Hungary a form of market relations had developed among companies by the final years of socialism, competitive attitudes were not really present in the actors’ mental models. The reason why competitive attitudes were missing is clear: In shortage economy, “competitors” were not threatened by being selected out of competition, they did not have to fight with global competitors, and “their market risk was basically negligible compared to their political risk”³. Although in Hungary – in contrast to Romania or the GDR – as a result of the reforms, a type of *special competition* had developed and the market actors had gathered important “quasi-market” experiences⁴, yet keeping up in quasi-market „competition” does not ensure automatic success in real market conditions. The comment given by one of our interviewees describes this situation: “This is like putting a zoo lion out into the jungle” When discussing “competitive spirit”, one mainly thinks of the dominant market actors: company managers and owners. Therefore, it was in this circle that investigations were conducted.

1. Methods

71 interviews were carried out at 67 companies. Out of these interviews 65 were statistically assessable. This study is based on the combination of *questionnaires and semi-structured interviews*. Respondents had the opportunity to provide multiple answers. The weight of particular answers is measured as a percentage of the total number of answers given, and not of the total number of respondents.

Figure 1. Distribution of interviewees based on gender, age, and their companies' size.⁵



It was not possible to guarantee full representativeness, however efforts were made to ensure that the sample was as diverse as possible, realistically reflecting the characteristics of the Hungarian economy. The 71 in-depth interviews are considered a large number in this type of analysis, however in terms of statistics it is a relatively small sample. The explanatory parts of the in-depth interviews provide an opportunity for *content analysis, in order to gain a deeper*

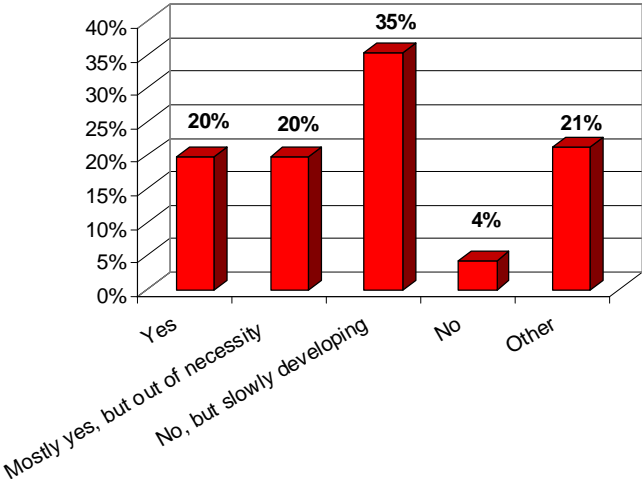
insight. Thus, the current work is largely of qualitative nature; it is hoped that it can provide a good basis for a later study based on quantitative techniques.

The aim was to map the influence of “objective” parameters on the formation of interviewees’ answers, namely: 1) the market position of the respondents’ companies; 2) the respondents’ age; 3) the size of the company; and 4) the respondents’ gender. Here mainly the impact of market position on the responses is discussed. One of the prime goals of the research was to show, how strong competitive spirit is in Hungary, how competitive domestic actors are in their own view 18 years after the change of regime.

2. Attitudes towards competition

Figure 2 presents the current opinions formed about the levels of competitive spirit. Respondents were asked whether Hungarians are competitive types.

Figure 2. Opinions formed about the levels of competitive spirit in Hungary



The most common opinion among the interviewees is that Hungarians are not that competitive; nevertheless they think that competitive spirit has been slowly developing since the change of regime. This view is shared mostly by managers of medium- and large-enterprises.

In the previous system, compulsory employment made people feel at ease. A portion of employees in the public sphere still works in a laid-back manner today. Such employees are not suited for work in the business sector. ...I do not say that there are no competitive spirited [people] among the age-groups [socialized] before the change of regimes; however in that system just more people grew lazy.” (*Sales director of a tyre wholesale and retail company*)

The intensity of economic competition in Hungary according to a survey of the WEF is relatively strong; around 5.5 on a 7-point scale. (WEF 2005-2006)⁶ The U.S. data shows a level of 6.3. The explanation for the contradiction between the high level of competition and the low inclination to compete is the following: Hungarian economic actors are forced to compete, and then it is not at all certain that they are guided by competitive spirit. Most of the interviewees talked about the *necessity of competing*.

The reason for this is that companies with stagnating or declining market positions consider to a lesser degree, the Hungarian actors as competitive spirited, or at least think that the competitive spirit is strengthening, compared to those with better market positions.

Table 1. Competitive spirit depending on the actors' market position

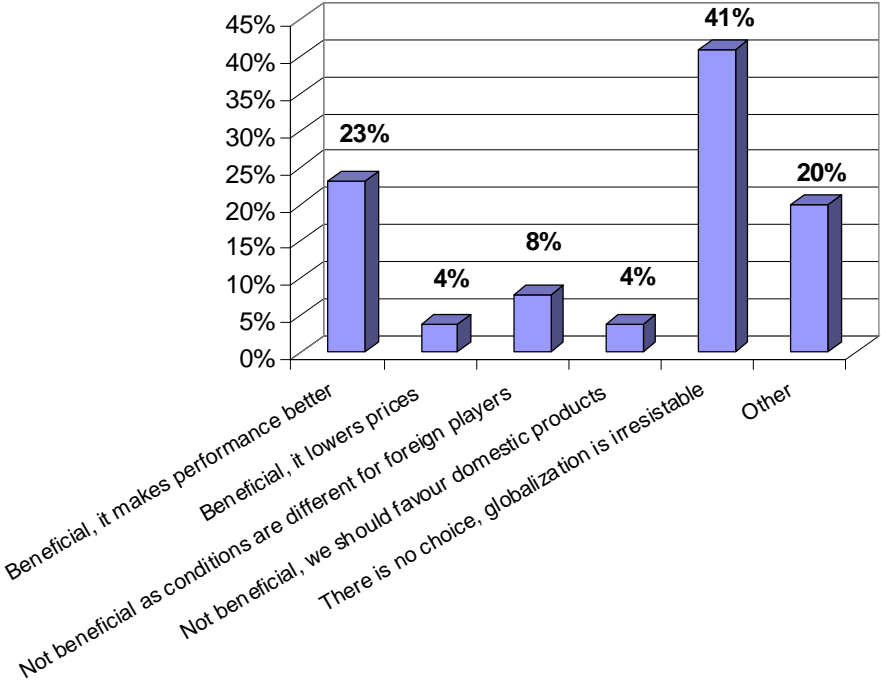
Opinions about the competitive spirit of Hungarian actors	Responses from moderately or rapidly growing companies		Responses from declining or stagnating companies	
	Number	Percentage	Number	Percentage
They are competitive (or competitive spirit is slowly strengthening)	28	76	7	58
They are not competitive, or they only compete out of necessity	9	24	5	42

At the same time, it must be recognized, that even at companies with poor market positions, positive answers slightly prevail.

3. Attitudes towards foreign competitors

Since competition in Hungary is not a result of organic development, rather it is closely tied with the appearance of foreign corporations, it was considered important to investigate the interviewees' thoughts on the lowering of the barriers around Hungarian markets, and about foreign competitors in general. Our research showed that those not in favour of allowing foreign competitors into domestic markets were only 14.5 percent of the respondents.

Figure 3. Opinions of interviewees about allowing foreign competitors into domestic markets



The majority of respondents thought that there is no a real choice as to whether to allow foreign competitors into the domestic markets, since globalization is an inevitable process. The proportion of those especially in favour of the appearance of foreign competitors is also noteworthy, as every fourth respondent thinks that it is beneficial.

It is beneficial to let them in, because they bring know-how. Something absolutely necessary: organisation, increase in efficiency. If one works at a multinational company, either as a manager, or as an employee, after that he cannot work at another company with a lower level of organisation. ...We learned to 'work'. ...The multinationals push prices down, and it is good for the customers. It is good for the producers as well, because it makes them compete, and it encourages them to switch

to more efficient products. They should produce value-added products, with high use value, with high intellectual content. They should not produce products that can be purchased on the market at half price. (*Managing director of a foreign language service firm.*)

Only 12 percent of the interviewees favoured a restriction on foreign competitors. This proportion is low, if compared to the sentiments of the general public, or more precisely, to views represented in the media, where it is much more common to hear hostile opinions about foreign firms doing business in the country.⁷ In the interviews, the minority that opposed the entrance of foreign competitors, cited as the reason behind their stand that the conditions of competition are not the same.

It is not right to allow them to enter, because they unequivocally start out from a better position. As a result of EU legislation..., we are forced to open up our domestic market to foreign carriers. From then on, they can also contract domestic freights legally. And we exist under extremely unequal conditions, even compared to the ex-socialist countries we are not on even grounds. ...Every foreigner can work with a significantly lower cost-price than Hungarians. The reason for this is, for example, that fuel prices are lower than ours everywhere. Taxes and contributions are also lower everywhere than here. As a result, maintenance costs, that is to say related costs are lower as well. Therefore, even if they pay a higher wage, their costs are still lower compared to a Hungarian. (*Managing director of a transport organizer company*)

Among the opinions given, the “Protect domestic markets!” sentiment also appears.

The problem in the agricultural sector is not that they bring in Slovak pork, it is rather that it is of poor quality, and we tolerate this. Those operating in this field for a long time know very well that with certain quality requirements (foreigners) can be barred, even seasonally. It is not only the Italians who can bar our sheep from their market during Easter on the grounds of foot and mouth disease. We could do this, too. Thus the responsibility of the Hungarian state and government is enormous. The problem is that we do not get the same support as our foreign competitors. (*Director of an education and research organizing company.*)

The complexity of the question of foreign competition, and the conflicting effects of multinational companies entering the Hungarian markets, is shown by the fact that the interviewees often simultaneously emphasized the blessings and the destructive effects of foreign competitors.

If I think back to the times when foreign companies were not allowed to enter, and I think about what we were left out of, because of that, and that we protected our production at any cost, and how much it cost us, then I would say it is good to allow foreign competitors to enter. After all, why shouldn't we allow them? Why shouldn't the customer have another product, why shouldn't they have a choice about what they

want? And how much would this damage Hungarian entrepreneurs? It is almost certain, that it will hurt them to a certain extent.... If we look at it from this point of view, perhaps we shouldn't allow foreign companies in at any cost. When they introduced tax allowances for foreign firms about ten years ago, I was working at a company and was trying to petition the municipal government for some kind of help, because our company was going to go bankrupt. If the foreign company next to us could receive so much help, why couldn't we? I was told that there was no legislative provision for such cases. Yes, there was none for this, but for the foreigner there was, and only they were able to receive preferential treatment. (*Financial director of a tyre wholesale and retail company.*)

In the case of this question, the deviations in the answers have also been examined according to the companies' position (*Table 2.*).

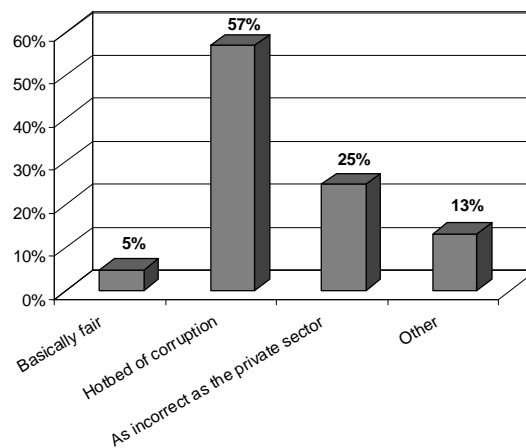
Table 2. Attitudes towards foreign competitors in light of the company's market position

Designation	Answers from moderately or rapidly growing companies		Answers from declining or stagnating companies	
	Number	Percentage	Number	Percentage
Allowing foreigners to enter is beneficial	16	37	5	46
Allowing foreigners to enter is not beneficial (for whatever reason)	4	9	2	18
Globalisation is irresistible	23	54	4	36

4. The role of the state in competition

It is also clear from the above, that from the standpoint of the nature of competition (and its result as well), the relationships of companies to the state is not negligible. Managers were asked about their experiences regarding the influence of the state on competition. The questions focused on public procurements, and whether they distort competition.

Figure 4. Views on public procurements



As it is showed in Figure 4, most respondents thought that public procurements are a hotbed of corruption, bribery is almost mandatory, and well established “tariffs” already exist. The following is a typical opinion:

One thing is certain, as long as there is public procurement, and it is tied to politics, corruption will exist. I have heard that in our town one of the public officials is referred to as ‘Mr. Twenty-percent’. Recently, there is a politician who is called ‘Mr.

Fifty-percent' behind his back. And we are not only talking about tenders at the values of one or two million, but even as high as 200 million. (*Controller of a hypermarket.*)

According to some of the interviewees not only the public procurements, but the entire public sector is a web of corruption.

The fire chief had a tariff on issuing the permit that would be his duty anyway. During the fire safety permit process of our construction we did not ask for anything illegal. He should have granted it automatically. In order to avoid him taking three months to do this, instead of the prescribed eight, fourteen, or thirty days, there was this tariff. The architect indicated in advance how much we would have to pay and for what. The municipality official – especially in the districts of Buda – also granted the construction permits for a given tariff. There was an extreme example in the healthcare sector; in October 2005, there was an opportunity to enter a tender to apply for capacity extension. There were a great number of applicants. And a company applied for a machine, of which there were only two at the time in Hungary, and another one somewhere else. Their application was accepted out of turn, before anyone else's, and their expenditure were post-financed. I think this is not fair competition. (*Managing director of a private clinic*)

Paradoxically, the answers coming from companies with weaker market positions showed a *somewhat* better picture, while companies with stronger market positions thought negatively about the competition distorting effects of public procurement. See Table 3

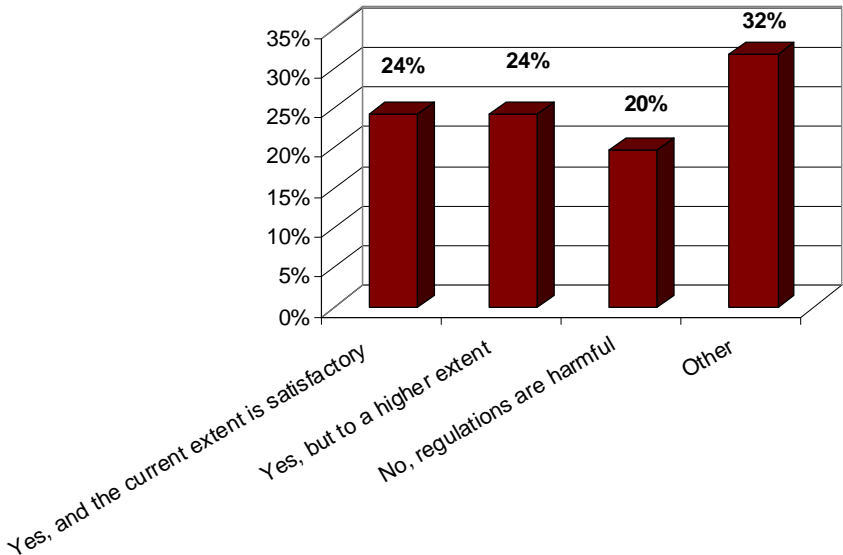
Table 3. Opinions about the competition distorting effects of public procurements in light of the company’s market position

Public procurements	Answers from moderately or rapidly growing companies		Answers from declining or stagnating companies	
	Number	Percentage	Number	Percentage
Correct	1	3	1	8
Hotbed of corruption	27	73	7	58
Not differ from private orders	9	24	4	34

No other explanation has been found for the more positive opinions of the companies with poor market positions except that this group has much less chance of taking part in public procurements, and this way they had not been able to accumulate as much negative experience as the companies in better situations.

The competition-distorting effects of corruption experienced at the public procurements clearly do not cover all the possible connections between the state and competition in general. Therefore, the interviewees were asked directly for opinions on competition policy, about whether the state should intervene, and if so, then to what extent.

Figure 5. Views on whether the state should intervene in competition



The majority of managers interviewed thought that the state should intervene in competition. 24 percent of them believe the state should intervene, and the current extent is already satisfactory. However, even the respondents who are satisfied with the extent of state intervention think that some changes are required.

The extent of state intervention is by and large satisfactory; however its efficiency is not. Consumer protection, for instance, is the subject of cabaret skits in Hungary. Consumer protection is not only for the protection of consumers, but producers as well. We will reach the point, when the word ‘ham’ cannot be written on the ham imported from the Hungarian populated parts of Slovakia, because it is not ham. They should write “pressed shoulder”, and then people can decide whether they want to buy this smoked pork meat, because it is cheaper, or not. With this, they would already

protect Hungarian producers, as well as me, as a consumer, because I can make a better decision. In Hungary, the market economy was developed in such a way that there was no market protection, and this is the reason for [the market] not being efficient. Therefore, the state should not intervene to a larger extent; it should rather intervene much more efficiently. (*General Manager of a logistics company*)

Table 4. Opinions on whether the state should intervene with competition in light of the company's market situation

The necessary rate of intervention in competition	Answers from moderately or rapidly growing companies		Answers from declining or stagnating companies	
	Number	Percentage	Number	Percentage
Same as now	11	35	2	22
More	12	39	4	45
No intervention	8	26	3	33

5. Conclusions

- According to the interviewees one can rather speak of competition by necessity, than about competitive spirit in Hungarian business sector. But the majority of business leaders are willing to face market challenges, and they consider the globalisation of markets as given.

- Foreign companies play a prominent role in the “revival” of competitive spirit. The interviewees acknowledged their merits in proliferation of innovations and work-culture; however, some respondents ascribe destructive influences to them as well.
- Positive attitudes towards foreign competitors are more common among younger, or surprisingly, among less successful business actors, than in the case of the older generations or in expanding business segments.
- Innovation, the basis on which a ‘David’ can successfully confront ‘Goliath’, stayed outside of the interviewees’ reasoning, when they discussed domestic actors’ chances for competition. This is not that surprising in a country where the number of economic entities is about one million, while R&D is carried out at only 671(!) companies.)⁸
- While most of the respondents believe that public procurement tenders are distorting competition and are a hotbed of corruption, many of them still think that the role of the state should increase.

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² This study reached completion within the frame of the NKFP Nr. 5/049/2004. Research project titled: The individual, social, institutional premises of competitiveness. The research group at Corvinus University of Budapest jointly works on this project with researchers from the Institute for Psychology of the Hungarian Academy of Sciences and from the Institute of Psychology of the Eötvös Lorand University. This paper is based on the common work of the research group at Corvinus University. Besides the authors, Anita Derecskei (Budapest Tech), Hilda Hurta (Szent Istvan University, Gödöllő) and Laszló Tóth (University of Szeged) took part in the investigations.

³ Mihály Laki., *Vállalkozók és vállalkozások szokatlan feltételek között (Entrepreneurs and enterprises under unusual circumstances)* (Diss.Hugarian Academy of Sciences, 2006), 53.

⁴ Marton Tardos, *Vállalati magatartás – vállalati környezet. (Firm behaviour – firm environment.)* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980).

⁵ The classification of the company size was based on “Act XXXIV of 2004 on SMEs, which follows the EC’s three categories, the so-called SME classification.

⁶ WEF (World Economic Forum), “*The Global Competitiveness Report*”, in: “*Versenyképességi évkönyv*” (“*Competitiveness Yearbook*” Budapest: GKI Rt.-Microsoft, www.gki.hu), 68.

⁷ These views and attitudes are commonly expressed in call-in television programmes, in the opinion pages of daily papers, etc.

⁸ Nemzeti Kutatási és Technológiai Hivatal (National Office for Research and Technology), “*Tudás, alkotás, érték*”: (*Knowledge, Creation and Value*): A Magyar Köztársaság tudomány-, technológia- és innováció-politikai középtávú stratégiája a versenyképesség ösztönzésére, 2006-2013.) (Medium-term Science, R&D and Innovation policy of the Hungarian Republic, 2006-2013, Budapest: 2006).