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***The Application of Change Management Methods at  
Business Organizations Operating in Hungary:  
Challenges in the Business and Cultural Environment  
and First Practical Experiences***

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**Comments Welcome**

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## The application of change management methods at business organizations operating in Hungary: challenges in the business and cultural environment and first practical experiences

### Abstract

The aim of this paper is to review the business and cultural challenges of applying Western change management philosophies and practices and to report about relevant firm level experiences observed within the transition period toward a market economy. The authors identify trends in the actual macro and micro economic and cultural environment, necessitating, driving and/or restraining these behaviorally planned change programs. After introducing the challenges change administrators confront with when planning and implementing change programs, they report on how the change management approaches, strategies and tools found as valuable in other cultures - especially in North America and Western Europe - were applied by some foreign and indigenous organizations in a country pioneering recent changes in the CEE region in many respects. The authors group their general observations and hypothetical suggestions about the change management practices of companies they had practical experiences with around the following topics: the organizations' attitude toward managing constant change, the existence of practices pursued on different levels of change processes, and specific change strategies and tools applied for managing change. They suggest that practices like institutionalizing mechanisms for dealing with constant change, introducing behaviorally based change management programs and using a variety of specific tools for guiding change processes were characteristic more of the change administration of foreign/multinational companies. At the - wholly or partly Hungarian owned, recently privatized and strategically redirected - companies the change interventions were less targeted to behavioral aspects. Change practices of the latter companies rather aimed at the *change focus*, and partly, also the *related formal subsystems* level. The authors suggest hypothetical explanations for the reluctance to use new change management principles and identify possible patterns of failure in transplanting Western methods.

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I. An overview about recent developments in the transition process toward a mature market economy in Hungary

The aim of this paper is to review the business and cultural challenges of applying Western change management philosophies and practices and to report about relevant firm level experiences observed within the transition period toward a market economy. For this purpose we would like to identify relevant trends in the actual macro and micro economic and cultural environment, necessitating, driving and/or restraining these behaviorally planned change programs. After introducing the challenges change administrators confront with when planning and implementing change programs, we would like to report on how the change management approaches, strategies and tools found as valuable in other cultures - especially in North America and Western Europe - were applied

by some foreign and indigenous organizations in a country pioneering recent changes in the CEE region in many respects.

Talking about business environment we could hardly find a better word to characterize the political and socio-economic life in Hungary in the last decade than *change*. What is evident even to the foreign business observer (Bush, E. J., 1995) is that liberalizing reforms in Hungary date back to as early as 1968 (New Economic Mechanism). Following the initiative, free enterprises emerged in the agriculture, in the service sector and in all areas where small-scale entrepreneurship was practical. Later, in the mid 1980s, Hungary was to be seen the first in the CEE region - and also globally - to reform its socialist economy by reforming its systems e.g. taxation: the personal tax and VAT, new legislation: banking and security laws, company act, accounting act, liberalizing foreign investments, employment regulation etc., developing or re-introducing institutions e.g. the stock market, the two-tiered banking system.

Shortly after the first democratic elections in 1990, important commercial legislation was passed regarding company foundation, privatization, concessions, accounting, bankruptcy and banking. With the legislative groundwork the private economy started to boom. A critical amount of state-controlled assets were given into private hands in the early nineties and Hungary became the key target of foreign direct investment in the region. Among the early investors were General Electric, Sara Lee, Guardian Glass, Suzuki and Ford.

The nature of the changes facing Hungary - and each of the CEE countries - were extraordinary. One should emphasize that these changes, unlike in the West, did not happen naturally but were forced since the governing systems run out of alternatives. Besides, the changes have had an exceptional range and impact in a very short time, affecting all members of the society (Bakacsi Gy., 1994).

Pre-requisites to a successful transformation were identified as the interdependent relationship of the competitive industrial base and the modern service sector. However, the transition economies have inherited an over-industrialized, miss-developed, run down industrial structure where lack of management at all level was substantial, especially in production, finance, and marketing-sales. (Eatwell, J., Ellman, M., Karlsson, M., Nuti, D.M., Shapiro, J., 1995). Hare and Hugh (1991) noted that 20-24% of 1989 manufacturing output would have yielded negative value on 1990 international market prices in the Visegrad countries (Poland, former Czechoslovakia and Hungary). Until the CMEA market existed, and most of the trade went through the transferable rubles transactions for goods and services in exchange for cheap Soviet oil and materials, there was no need to create value added prices. However, once the CMEA market collapsed it was urgently required to re-structure, re-tool and penetrate new markets. (McKinnon, T., 1993)

In Hungary the first positive signs in redirecting export trade and increasing industry production were showing already by 1993. Later, in 1995 the government embarked on a tough stabilization program aimed at curbing the current accounts and budget deficits. After years of

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wavering, the Hungarian macro-economic indicators have shown marked improvement for the past two years. International reserves are high enough to pay off some foreign debt ahead of schedule, the budget deficit is gradually decreasing. The country's credit rating has also improved. Foreign equity investors have returned to the Hungarian stock exchange after a former re-organizational delay (Business Central Europe, 1996). Foreign direct investment continues to flow in, (with 15 Milliard dollars Hungary still leads the CEE investment market,). Some of the latest investors in Hungarian business are: GE Capital, Sony, ABN Amro, Nippon Denso. By today, around the two thirds of GDP is produced by companies with foreign shareholders, which is unique in the CEE region. Hungary now is outstanding from the other CEE countries in the state of the large enterprise privatization, corporate transformation and the effectiveness of legislation on investment.

## II. Characteristics of the transition process on firm level

From what we told about the change challenges faced by the country during its transition into a market economy follows that most of the Hungarian business organizations had to cope with extreme difficulties during these years. Beyond the fact that their traditional markets collapsed, they had to operate under new political environment, renewed economic regulations, and their exports to perspective markets were undermined by recession and protectionism in Western Europe. Once-protected local companies were exposed to competition pressures from imports. Added to it, the high inflation, high interest rates, the unemployment, all contributed to the lack of stability of the economy.

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The presence of global business players has fertilized the process of transition of traditional companies into leaner and fitter organizations. In the case of green-field investments this has meant the birth and evolution of completely new organizations. However, rapid change was present in the domestic companies, too, most of which have been privatized or only founded recently and have had to completely renew their market orientation and business strategy in their fight for business survival. The economic indicators suggest, that business organizations now operating in Hungary have been relatively successful in either coping with change or mature after inception relatively rapidly. According to a study on the survival of five "dinosauria" companies (here: large, formerly state-owned organizations): even "the large companies are able to renew themselves". (Baross, Vecsenyi, 1996.)

Viewed in a historical context, the traditional Hungarian companies - like the type of the above mentioned "dinosauria" - were founded or had roots to the turn of the century, when Hungary was undergoing a rapid economical transformation. The late 40's pushed them until the end of the 80's early 90's, under state control (ministerial, administrative control, central planning, part of the 'profit redistribution system', access to central credit.) This selective redistribution was contra-selective. It gave preference on political base to huge politically strong companies. This of course resulted in distorted price, profit and interest system. 'Large is beautiful' became an important value of the Hungarian managers. Transactions worked through bureaucracy rather than markets. Because of the shortage economy with limited competition, the working principle was the ultimate right and power of the supplier

without any interest in the consumer. As a result quantity rather than quality was preferred. Organizational politics became very important, real performance was not known and thus was not rewarded for. Managers were rewarded for conformity and not on competence.

The structural characteristics of these companies were in most cases: centralized decision making, bureaucratic linear-functional structure, a strong power culture, wide power gap between the top and the middle management. The most characteristic was several layers of middle management who acted in the organization as communication blocks.

With Western eyes the above-mentioned Hungarian companies - many of whom later became acquirees - were production driven, pure manufacturing facilities with cost efficiency and quality problems, characterized by high inventories (batch-, not order-based productions, exclusively functional organization with problems of system integration, and difficult pay and salary structures. On the human side they found problems with collaboration, low level cross functional thinking and horizontal communication, and lack of faith/trust. They found that local managers had inappropriate business skills, non-commercial attitudes, a low level of quality and customer service orientation, were defensive and resistant to change. (Villinger, 1995.)

In the past 8 years the above mentioned characteristics and practice have partly changed. Through one of the quickest - though quite painful - privatization process in the region, now more than 60% of the economy is in private hands. In most cases the privatization was controlled by SPA



(State Property Agency) and the commercial banks (that were also undergoing the privatization process themselves). The new multi - party political system put coalition MP's, politicians to economic positions. Divisional structures (replacing the traditional linear-functional one) appeared, companies introduced cost centers, profit centers.

Needless to say that the nature, scope and intensity of macro economic and firm level transition processes has required effective change management within the business organizations. In the next part let us examine some cultural aspects acting as conditions for transplanting modern business organizational change concepts and practices.

### III. Characteristics of the change related cultural heritage in Hungary

Hereinafter we try to describe some specificities of the cultural environment of change management in Hungary in order to further investigate the *necessity* of and *possibility* for planned behavioral change management under these specific circumstances. This is important even if 1./ we assume that Hungary's historical commonality with Western cultures and the already implemented changes in its socioeconomic and business situation indicate a relatively lower importance of the cultural transferability issue in comparison to some CEE countries or other emerging market regions, 2./ some of the concrete intervention technologies and/or their elements are technical enough not to be culturally sensitive, and 3./ some others are - by their nature - originally meant to be applicable in a culturally sensitive way.

To give a cultural background to the application of Western change management methods, we have tried to characterize briefly the earlier and recent *change experiences* of Hungarians. We can find that:

- In its history Hungary has always been an intermediate geographically, politically, economically, socially, and culturally. Hungary was occupied for centuries in its modern history, which, also, educated the nation to demonstrate adaptability to changing external circumstances, to seek alternative solutions, to compromise with power holders (e. g. obtain privileges from the occupants, like in the era of Habsburgh Monarchy and within the Soviet block), but which supposedly also reinforced failure orientation and win-loose patterns.
- A good part of the recent history and the first sixty years of the whole century have been characterized by extreme, rapid, complex, and continuous macro and micro political change phenomena. To illustrate the scope/magnitude of these changes we have made a list of possible risks involved in them for their recipients. These, up to the recent years have often been in Hungary or in close countries such as: physical survival (i. a. wars, poverty, political crime); political suppression incl. restrictions on all human rights (also such as free enterpreneuring), and ending up i. a. in geographical isolation (travel restrictions), forcefully split families, change in citizenship without personal will, questioning national identity, emigration and forced migration, class/status identity crises; minority conflicts, the pursuing of hidden agendas on the part of the elected or self-selected political and business leaders; value crises concerning religion, equality, collectivism etc, questioning the acceptability of profit motives; shortage economy, lack

of true and sufficient formal feedback in the organizations; and lately: health hazards due to environmental threats beyond poor health service standards, an enduring, structural and - for masses of people irreversable - empoverishment and unemployment, and an extreme level of socially deviant behavior including corruption and organized crime. (Some of these risks in certain time periods have been considerably higher in other CEE countries than in Hungary.)

- Under one half of the century it was specifically "unlearning to change" which was *officially* expected and rewarded. Among the eras of political totalitarianism were the four decades of the communist regime strictly constraining basic types of change motives and chances on individual, group and societal level.
- Due to the aforementioned and other, more specific political and business situational factors, it is a relatively common experience of Hungarian people to be asked, commanded or forced to exactly undo what had been asked, commanded or forced just before, and to do again the opposite.
- The market economy has been deemed by Hungarians as a "cure for all". Now the majority of the population experiences more the negative than the positive consequences.
- A belief exists that the recent changes related with the foundation of market economy are basically necessary because of the low work-productivity of the "socialist" era. So, after the recent years of the "punishment", the "salvation" is expected: an illusion that "there will be an end to the changes" is sometimes be observed, at least in the less younger age groups.

When trying to identify the implications of the above characteristics for planned behavioral change programs we can say: the high amount and wide scope of changes and their riskful and ambiguous character could have caused a considerable learning in groups and individuals on how to resist to changes or how to tolerate or adapt themselves to them in a "smart" way, without questioning and believing the *why* of these changes.

What flows from this concerning the necessity of systematic change management in this environment? To address this question we have to theoretically distinguish between two types of change management challenges. The first is when relatively less commitment is needed on the part of *implementors/recipients* to make the change a success, "only" possible resistance risk has to be eliminated in the course of change implementation. The second case is when the change would be a failure without a relatively high level of commitment on the part of the *implementors/recipients*.

In the case when the firm's need is to minimize resistance to change (when a "defensive" change management approach could be sufficient), some of the aforementioned specific historical-cultural circumstances can cause a relatively high demand for behavioral change interventions (e. g. if we approve the suggestions about the high abilities of Hungarians to resist). But some factors also allow change leaders the following interpretation: "these people are socialized to do anything for the power holders". In the case when the business needs more than simply "overcoming resistance", i. e. a commitment toward change is required, the mentioned historical-cultural factors undoubtedly call for the

necessity of carefully planned behavioral change management interventions.

What implications might the mentioned cultural-historical factors have on the attitudes of Hungarian individuals being in a position of or expected to become change *strategists*? First, evidently, there is an underlying pattern of extremely autocratic political leadership behavior in the former and recent history of the country. We would like to illustrate the possible impact of this by the following internal monologue: "Because it is power that makes things happen and change, if I have power - e. g. get officially appointed to be a leader (!!!)- it is me who can freely decide about structuring/changing things on my own or giving a consideration to other's view". Beyond the autocratic leadership in some parts of the century, under special circumstances - e. g. also in the (later periods of) socialist era, when soft profit criteria and the need to cope with shortage economy called for a type of soft leadership behavior - patterns of a democratic style and/or a paternalistic leadership were also demonstrated.

#### IV. The change management philosophies and practices at selected business organizations operating in Hungary

After describing some of the business and cultural conditions for transferring change management technologies in Hungary during the transition to a market economy now we would like to review some of the experiences of managing company level change. For introducing these change management philosophies and practices, we use the following conceptual framework:

#### IV.1 Attitudes toward managing constant change

#### IV.2 The existence of practices pursued on the different levels of change processes

- Activities targeting the focus of change
- Handling the systemic pre-conditions and effects of focal change processes within and on formal subsystems
- Redefining the mindset: behavioral change within the organization

#### IV.3 Change strategies. Tactical decisions on change processes. The use of specific change management tools.

The examples illustrating the observed types of change interventions and the hypothetical suggestions about the scope of using the mentioned change administration principles are mainly based on the authors' graduate, executive teaching, consulting, and, employment experiences with business organizations in the area in the past years of transition. The organizations at which the change administration was subject to executive development class projects, class case studies, consulting or other observation opportunities include 8 wholly-owned subsidiaries of foreign companies (mostly American and German 'multinationals'), 2 joint ventures, and 10 companies under Hungarian ownership. Among the Hungarian companies we find legally already privatized ones which - in the light of their real mode of functioning - should rather be called 'quasi state-owned', but we also have here 'true' privately owned companies (either public ones or those owned by a small number of individuals). In the report we talk about change processes occurred at those companies between 1993 and 1997. The observed change processes on which our

discussion is based encompass re-structuring and cultural re-orientation after changes in firm governance structures (specifically: privatization processes in the form of take-over) as well as strategic re-positioning, and also, changes of more operational/specific character, like creation of new distribution networks, installing functional support systems.

#### IV.1 Attitudes toward managing constant change

We would like to highlight the issue of the companies` thinking about continuous change by using the approach of Kanter et al (Kanter, R. M., Stein, B. A. Jick, T. D. 1992). These authors suggest that the first of the "five major building blocks" through the combination of which change really comes about is "Grassroot Innovations" (p. 497, 498). They argue that the

"So-called breakthrough changes are actually related to the interplay of a number of smaller changes that together provide the building blocks for constructing the new organization. Even when attributed to a single dramatic event or a single sharp decision, major changes in large organizations are more likely in fact to represent the accumulation of accomplishments and tendencies built up slowly over time and implemented cautiously." (p. 518).

In discussing the approach of companies to managing change therefore, our question is, whether programs for specific changes are put into the context of managing continuous change, or the attention of change administrators is focused only on discrete change events. In other words: whether change administrators show demonstrated efforts to handle the

issue of constant change as a precondition to, and inseparable part of, guiding specific change processes or, they just handle changes as separable projects.

What we found is that with the exception of a couple of well known multinational companies, the change management efforts observed by us within organizations were targeted at resolving discrete change projects.

To illustrate the few exceptional cases, an American multinational company, for example, after buying the well-known Hungarian electrical lamp and lubricant company, started a cultural re-orientation program. In this program business, leadership, and *change* issues were addressed as three equally important components of skills and attitude development. This company also started an organization-wide management behavioral training program as part of its efforts to make its whole management staff to be more receptive to the ever changing environment.

As for an evidence for confronting the issue of constant change, an example could be that of another big multinational company operating in Hungary which set up a performance review program confronting basically two evaluation criteria of the individual: "What did you accomplish in the past year?", and "What did you *learn*?" The same was valid for the performance planning practice at the company. At an other organization the planning process includes the question, "what do you want to do differently?". We think any reference to institutions like the former performance review or the latter planning procedure reflects an organization's positive attitude to confront directly constant change.

An also foreign company in the manufacturing industry puts constant change into the focus of its managerial philosophy and operation. As one



way to "walk the talk", the company hired an external behavioral science consultant to work virtually on a full - time basis for the company. To hire a behavioral scientist, and to use him on a full - time basis without integrating him into the hierarchical organization and also give him high level of freedom to define his own area of responsibility, has been quite unusual in Hungarian business practice. Now the consultant works basically on selection projects, and on promoting internal communication and setting in management training programs. He has also much contributed to solving the individual career problems of key personnel members.

According to the consultant, one of the senior leaders had to be removed lately from his position because of his extremely *heroistic* leadership. This person was always best prepared, ready to address the hottest business and technical issues. We can imagine an extremely educated personality, positive to changes, loyal to the company: seemingly perfect. But concerning his workstyle, he liked to centralize all duties, without delegating enough responsibility, and empowering others. Simultaneously, he spoiled his interpersonal relationships and became less effective without building effective teams, and being leveraged by teamwork. Most CEOs in Hungary, in cases like this, find it extremely difficult even to define the problem in the way as defined above. Culturally, it is perceived to be very risky to question the eligibility of executives shown to be professionally 'perfect', and otherwise looking positively toward change. As we can see, the consultant has worked a lot on defining the problem, and helping the decision to transfer the person to a professional job on a Europe level project team.

Most Hungarian companies in our area of observation have concentrated their efforts so far on coping with actual change constraints, e. g. privatization, in recent years. When asked about their current tasks or priorities, the administrators of these companies frequently have answered: "We are preparing ourselves for privatization". It has taken

some years for some of these companies to realize, that it is the global market economy for which they have to be prepared, not privatization, itself. The fact that preparing for global competition equals preparing for/"making early investments into" constant change: this will probably be the next phase of learning for these companies.

A couple of the by us observed companies have already realized the aforementioned challenge. One of the joint ventures - with a considerable portion of Hungarian ownership - is interested in a consulting process which encompasses both a facilitation of actual change processes, and an education of the company on generic change issues, i. e. preparing the members to *change as a way of life*. Another, formerly state-owned, now public large Hungarian company ordered a management development program - as absolutely the first of the type of event at that company since 1990 - with a change management focus. Within this focus the message about handling the constant change was of central importance.

IV.2 The existence of practices pursued on the different levels of change processes.

In dealing with the practices on the different levels of managing change we apply a commonly used categorization of the levels of change: the change focus, the related subsystems, and the behavioral aspects. So change related practices are :

- a. Activities targeting the focus of change
- b. Efforts to handle the systemic preconditions and effects of focal change processes within and on formal subsystems

- c. Interventions to redefine the mindset/directly influence behaviors in order to support change by handling resistance, and gaining commitment (i. e. the core component of "managing change" in a literal sense.)

Our question concerning the levels of change is, whether the administrators of the analyzed change processes did intervene on one or more of the above levels, or what combination of intervention levels occurred.

In most of our observed - wholly or partly Hungarian owned - companies the interventions occurred on the *a.*, and several times, additionally, on the *b.* level, i. e. no *management of change* took place in the sense of a planned behavioral intervention. Typically, the stress was on the focus level of the change, on a more or less specific business/technological aspect. In addition, it is hard to find examples even on effective *technological implementation of change (a. level)*, and even harder on a *systematic implementation of change (b. level)*: working on the preconditions/effects of the focal change problem in the formal system in a planned way).

To illustrate the *b.* level challenges let us describe a most comprehensive program from the food industry (Bonifert, M. 1994). As regards this program, it represents an example of the few ones being not only proactive, complex but also consciously working on the *c.* level. What were the processes through which company "Gy. K". had undergone post privatization? A complete restructuring of the financial reporting controlling system was required to comply with international standards and local requirements. The company, through a reformed 6 member Board of mixed nationality, with Hungarian as working language in a short while changed the production driven company to a commercially

driven Group. Based on a common vision for the future, the first mission of the company was formed. The strategy, and the corresponding action program, as was perceived by the employees, did have a major impact on the organization. New sales and marketing departments were set-up, the product portfolio was reviewed, based on consumer interest a launch of a new production line was organized. Non core businesses and satellite production sites were reviewed and, based on profitability figures, solutions were worked out. The production site underwent a major reorganization to improve quality and efficiency. New investments in biscuit and a green field investment in snacks was approved. Major investments have been allocated to the above programs. New system development IT/MIS resulted in one of the most comprehensive systems within the Group. As it was nick named "from stone age the people went to computer age", from 3 users to almost up to 200 people on-line. This of course diminished old jobs such as the typist and a large number of administrative support. This was done in line with a comprehensive HR strategy. The primary goal was to improve the overall organization effectiveness (starting from 1:1 direct : indirect), restructure the pay and reward system (from 143 pay/job categories 15 were established), increase motivation and commitment, introduce performance management, develop the work force through training and development programs. The effectiveness of the program was monitored through a questionnaire conducted with 15% of the employees of the company .

In the absence of a mature culture for *b.* and mainly, *c.* practices, still many companies have achieved unquestionable results in adapting themselves to the new situations so far. Trying to find hypothetical explanations for the by us perceived reluctance to use new change management principles, we can say that for one part of the companies, - *i. e.* for those who have still preserved some elements of their former monopolistic position - virtually less change was needed for a successful adaptation. Other companies which were able to find the right strategic directions or capitalize on *external* success factors in other ways, could possibly neglect *b.* and *c.* type of *implementation* issues due to some earlier mentioned cultural and some actual business factors. The latter could be:

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a relatively cheap, professionally immobile, and psychologically scared workforce (under the threat of unemployment), the employees' adaptation to constantly unorganized/changing conditions (learnings from the shortage economy) combined with a relatively high value of financial rewards among the employees (in Hungary you can still buy work under command, or hectic, extremely stressful conditions). As regards change leaders they could be withheld from applying modern behavioral change technologies by their autocratic behavioral patterns. We have to realize that in the contrast of traditional leadership patterns, the mere alternative of applying the toolkit of behavioral change management can be perceived by the leader as an exaggeration of the change situation: it can be a supplementary strain on leadership identity beyond that provoked by the focal change itself. Finally, beside the "need" and "will" factors there is the "ability" side: lack of appropriate skills on the part of the change administrators. To summarize the situational factors leading to neglect *b.* and *c.* level *change implementation* issues, we could hypothetically say: there was less perceived weight of *internal* success factors within the organizations.

Let us take an example for the problems arising from the insufficient level of *b.* and *c.* type of interventions. A large Hungarian firm intended to build up a unified HR system for the whole company. This was shortly after changes within its basic legal and organizational structure which included mergers between companies formally having operating virtually on their own. So at the time the question of HR systems were put on the agenda, culturally and operationally still many kind of companies existed under the new organizational "umbrella". This meant also that the a job

was barely comparable to the same one within another organizational unit: the same job title covered great differences in job content and value. In this situation the company began a never exercised practice: the job evaluation (here: *a.* level intervention). The mentioned cultural and structural differentiation, the logical gaps in the whole new organizational structure provided a job too hard for the job analysts and the evaluation committees (here: *b.* and *c.* level problems). As a result line committee members were heavily biased towards their own area, so the job values set by their contribution were perceived generally as subjective throughout the organization. This undermined the credibility of the whole process, and, evidently, also that of the HR organization to an extent. According to some internal observers, too many compensation issues have to be dealt with again and again, after four years of the start of the system redesign.

Talking about different levels of change management practices, we can call the *a.* and *a.+b.* type of interventions as most elementary forms of intervention. Beyond these forms a very special combination of intervention levels is that of the *a.+c.* levels. We could identify this at a couple of formerly state-owned large companies, and could refer to it as the "enlightened and inexperienced/undermotivated" change management. What we mean by this is that the change administrators possess an up-to-date set of knowledge on the direct behavioral aspects of change and launch a - "fashionable" - *behaviorally based program of managing change* (*c.* level) to support the focal change issue (*a.*), but, at the same time - unintentionally or more or less consciously - let the organization perform poorly on transforming key subsystems (*b.* level),

being of vital importance for the successful implementation of *a.* initiatives.

At the above mentioned company a classical *management of change* program was designed with the assistance of a well known consulting company to support the organizational restructuring process which included among others a new definition of businesses, a separation of internal service activities from line authority. A key goal was to foster internal customer oriented behavior between businesses and functions. This goal is one of those that have suffered much among others during the implementation. What type of systemic preconditions/interventions (*b.*) were lacking? To answer this question, we have to go one step further. As told by some organization members in a strategic observer position, there is a deep power conflict between line and functional organizations and their key actors, restraining them from healthy internal customer oriented behavior. How are these behaviors related to the functioning of formal systems? We assume that the lack of organizational transparency (i. e. the lack of sufficient interventions on the *b.* level) helps individualistic/political behaviors to persist (or in other words: undermines *c.* change management efforts).

In more detail: key controlling issues have not been put in place so far, the benefits from using a different organizational design still can not be calculated clearly, the cost and value production structure is still not sufficiently transparent, and, consequently, it is very hard to calculate the net value added by the units. All in all, the members and units of this organization have far less than the required data about the importance/business value of each other's activity, and they lack enough rationale behind the efficiency and applicability of various organizational design versions. So the

lack of appropriate information and reward subsystems can be part of the behavioral inertia.

If we ask the question why the change strategists did not anticipate or address these structurally highly determined behavioral obstacles, the answer can supposedly be found in lack of enough experience and/or in lack of sufficient motivation to touch the hottest political and professional issues behind these phenomena.

Another specific combination is what we could call "contaminated" change management where motivation problems plus deficiencies in the experiences of the change agent play again a crucial role. This could be illustrated by the formula  $a+b+c-c.$ , illustrating an intervention which starts at all the three levels but in which, in a later stage, the positive effects of the *behaviorally based program of managing change* (c. level) get contaminated by immature change leadership behavior.

At a large company, after a series of a didactically, structurally wholly new management development programs containing practical problem solving elements, there was a closing session by the participation of the top management. The main agenda was: project team presentations. During the two days of the closing program module, within the formal process, the CEO never interacted directly with the teams, did not give feedback unless through his deputies. In his closing speech, he acknowledged the merits of the program, but in one of his first sentences he called the process very ambiguously a "game". This was culturally quite controversial to what he participants thought about their own - felt as new and very serious - development experience and, also, to what had been known by them before about the view of the CEO of the program. We could comment this in the following way: the CEO meant to target *task completion* (project results) with this feedback in an ambiguous way, but, in fact, he hit the *process*, he discredited to an extent the emerging new cultural experience of the participants..



If we talk about the theoretical necessity of *c.* level change management practices or those aimed at handling transitions in a complex way, by offering an optimum combination of *a.*, *b.*, and *c.* interventions while using the behavioral aspects as guiding principles of the change process as a whole), let us try to assess some of the challenges change leaders and consultants face when embarking on redefining the "mindset" of key employees.

As regards mindset issues on the management level, studies already a few years after the beginning of the privatization process (Neuman, 1993) pointed out that the greatest advances, and most persistent problems, East-West managers have, has to do with their ability to understand and relate to each other. A high level of verbal understanding is not sufficient, because significant differences in mentality between the two cultures exist. In the study Western managers typically characterized the Hungarian managers as slow in decision making, unwilling to take risks, too inflexible and lacking a "spirit of adventure".

Among the Hungarian cultural factors / antiquated behavioral patterns, as reported by another study, are: to remain very much a "lonesome hero" (not to ask for help, not to communicate about job performance problems), risk avoidance, an overestimation of one's performance or capacity, a high degree of personal sensitivity to critical feedback, to satisfy own needs through the maintenance of hidden agendas at work. (Cahoon, A., Fehér J., Kovach, R. JR. 1994).

We have put together a hypothetical list of antiquated versus new behavioral/attitude requirements in the economic-cultural transition process in Hungary for which we used primarily Neuman (1993), Cahoon et al (1994) and Pierce (1991), and which is based

also on our practical experiences. We have set up two times five, opposing attitude/behavioral categories with a specific content as follows:

- a. Self-advocacy vs. Self-inquiry (Refusing feedback - showing a preference for feedback; Expressing too low/high self-esteem - expressing realistic self-esteem; Refusing change - questioning status quo)
- b. "Partialist" mindset vs. System thinking (Acting in an overly "functionalist" way - "helicoptering" and being sensitive to differences; Measuring against intraorganizational standards - measuring against extraorganizational standards) -
- c. Dependancy vs. Intrapreneuring ("Things happen to me..." - "I am part of what happens around me"; "Undertaking responsibility is dangerous" - "Undertaking responsibility is part of my self-fulfillment"; Pushing upwards responsibility - undertaking reasonable risk; No clear responsibilities - champions/teams undertaking responsibility; Being blocked when facing intra-organizational borderline issues - undertaking responsibility for borderline issues; "This can't be done, because..." - "This can be done, if...")
- d. Heroism vs. Interdependence (Working much alone in an inefficient way - investing into, and being able to draw benefit from teamwork; Lacking enough trust - giving credit to people; Avoiding delegation - empowering others; Defending one's own turf - confronting, open behavior)
- e. Rivalry vs. Service ("Who is right?" - "What is right?")

To close the discussion on the combination of different levels of change interventions let us bring an example on a program that tried to confront systematically with the behavioral issues. Of this type of program we have found only a very limited number of examples within our area of practice/observation. At some of the earlier mentioned multinational companies we have encountered with a model of complex treatment of change.

At the food company mentioned earlier the restructuring was done in a slow space process carefully monitored by external and internal experts. The change was effecting over the two years all the people in the organization. The shock of the foreign culture and

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the first appearance of a *real owner* was minimized by the fact that in the first two years only a second line business development/marketing manager represented permanently the mother company. Never were more than 4-5 permanent foreigners in the company second and third line of management positions. The UK based mother company, with strong British traditional values was also new in the international arena and that could be the explanation of the slow, carefully designed, partnership based change management within the organization in the early days. (Bonifert, M. 1994.) One of the tools of the behaviorally oriented change program was a - former already mentioned - survey conducted with 15% of the employees of the company for monitoring the effectiveness of the change program. The employees were positively noting the focus on fast space change, the good cooperation among groups/departments. Criticized the efficiency of horizontal and vertical communication ( at that time still 3 layers of middle management existed). The employees emphasized the motivating but also the demotivating tendencies of financial incentives (the new pay structure was still in the first stage of development). The non interesting points generally for the questioned 150 people were task flexibility and working in autonomous jobs. Among the lessons learned were that "Western HR implementation can help to drive cultural change in Hungary", for example job analyses can be used to change employees` mindset (Poor, J. 1994, Bonifert, M. 1994). As part of the change management efforts also the senior managers of the company were asked through a series of interviews, questionnaires and with the logical mapping process about possible change problems.

In the last two years some of the former large state-own companies which have been privatized recently, have also started behavioral change management programs. These programs are now in process. (A few of our aforementioned examples - showing possible problems and pitfalls - were taken from these programs.) Trying to analyze and evaluate the interventions at these "dinosaur" companies aimed at handling transitions in a complex way (offering an optimum combination of *a.*, *b.*, and *c.* interventions while using the behavioral aspects as guiding principles of the change) will be a task of the near future.

3. Change strategies Tactical decisions on change processes. The use of specific change management tools.

For identifying change strategies Kanter et al (1992 p. 492) use the distinction between "Bold strokes - long marches". For tactical decisions, the same authors propose: "Everywhere vs. pilot sites?, Fast vs. slow?, Work through existing structures and roles, or to create new roles, or groupings, or structures?. Should the change be mandatory or voluntary?" (pp. 514-516)

In a country where the traditional Hungarian organizations have normally preferred commands as leadership "solutions", the consciousness of some Western organizations about the aforementioned strategic alternatives has been a new pattern. But it is important to warn that even if a "long march" strategy is applied by the latter, this does not automatically mean their employees would feel to be more involved, or, perceive to be managed in a less directive way. The amount of changes "imported" by multinationals is so high, and the felt power relationship with the new owner is so unbalanced that the specific change management technologies can sometimes do no more than lessen the negative feelings about job insecurity and the low level of freedom of choice experienced by employees during these transitions.

As regards even more specific change strategies (educational, coercive, participative, rewarding, bargaining, manipulative etc.), we find it also relatively easier to quote examples of *educational* strategies or a

*convincement on a value basis* strategy from the practice of MNC's. For the indigenous companies *command* is the most characteristic in our field of experience.

Conscious tactical decisions were to be observed by us - with some exceptions - also only at the "change professionalist" international organizations.

Some multinationals show up a wide range of specific change management tools, while the more traditional domestic organizations are skeptic about many of the - felt as too Western/American - type of solutions (e. g. too open and heavy emotions in communicating values, goals and successes, and in giving rewards, "employer of the month" systems, cheering parties, social parties, too much teamwork). The skepticism can be rooted in the fact that a wide array of management tools (individual feedback, cheer-parties, emotionally filled leadership communication) had been discredited by the past political regime in the eyes of employees.

## V. Summary

The aim of this paper was to review the economic-cultural challenges of applying Western change management philosophies and practices under the specific Hungarian business environment and to report about firm level experiences observed within the transition period toward a market economy.

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The nature of the changes facing Hungary - and each of the CEE countries - were extraordinary. One should emphasize that these changes, unlike in the West, did not happen naturally but were forced since the governing systems run out of alternatives. The changes have had an exceptional range and impact in a very short time, affecting all members of the society (Bakacsi Gy., 1994),

Also most of the Hungarian business organizations had to cope with extreme difficulties during these years. Beyond the fact that their traditional markets collapsed, they had to operate under new political environment, renewed economic regulations, and their exports to perspective markets were undermined by recession and protectionism in Western Europe.

The presence of global business players has fertilized the process of transition of traditional companies into leaner and fitter organizations. In the case of green-field investments this has meant the birth and evolution of completely new organizations. However, rapid change was present in the domestic companies, too, most of which have been privatized or only founded recently.

When trying to identify the implications of the above characteristics for planned behavioral change programs we suggested that the high amount and wide scope of changes and their riskful and ambiguous character could have caused a considerable learning in groups and individuals on how to resist to changes or how to tolerate or adapt themselves to them in

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a "smart" way, without questioning and believing the *why* of these changes.

We suggested that these cultural factors called for the necessity of carefully planned behavioral change management interventions in order to gain commitment from change implementors/recipients.

When seeking the implications the cultural-historical factors could have on the attitudes of Hungarian individuals being in a position of or expected to become change *strategists*, we referred to a pattern of an extremely autocratic political leadership behavior in the former and recent history of the country, but underlined the fact that under special circumstances patterns of a democratic and/or paternalistic leadership were also to be observed.

In the part dealing with the practical experiences, the examples illustrating the observed types of change interventions and the hypothetical suggestions about the scope of using the mentioned change administration principles are mainly based on the authors' graduate, executive teaching, consulting, and, employment experiences with business organizations in the area in the past years of transition. The organizations whose practice has been reviewed include 8 wholly-owned subsidiaries of foreign companies (mostly American and German 'multinationals'), 2 joint ventures, and 10 companies under Hungarian ownership. Among the Hungarian companies there are legally already privatized ones which - in the light of their real mode of functioning - should rather be called 'quasi state-owned', but also 'true' privately

owned companies (either public ones or those owned by a small number of individuals). In the report we talk about change processes occurred at those companies between 1993 and 1997. The observed change processes encompass re-structuring and cultural re-orientation after changes in firm governance structures (specifically: privatization processes in the form of take-over) as well as strategic re-positioning, and also, changes of more operational/specific character, like creation of new distribution networks, installing functional support systems.

In discussing the approach of companies to managing change, our first question was, whether the change administrators showed demonstrated efforts to handle the issue of constant change as a precondition to, and inseparable part of, guiding separate/specific change projects or, they just focused their attention to the latter. In our experience, with the exception of a couple of well known multinational companies, the change management efforts observed by us within organizations were targeted at completing separate change projects. Hungarian companies reviewed in this study have concentrated their efforts more on coping with actual change constraints, e. g. privatization, in recent years. It has taken some years for some of these companies to realize, that it is the global market economy for which they have to be prepared, not privatization, itself, and that preparing for global competition equals preparing for constant change: this will probably be the next phase of learning for these companies.

In most of the observed - wholly or partly Hungarian owned - companies the interventions occurred on the *change focus* and several times on the



*related formal subsystems level, i. e. no management of change took place in the sense of a planned behavioral intervention. The reports are poor on illustrating even effectively planned technological implementation of change .*

In search of the behaviorally based change management programs we can say that we could identify only a few instances in our practical experience. It is more the multinational companies who offer a model of the professional treatment of change.

In the absence of a mature culture for change management, many companies have achieved unquestionable results in adapting themselves to the new situations so far. Trying to find hypothetical explanations for the reluctance to use new change management principles we can say that for one part of the companies, - i. e. for those who have still preserved some elements of their former monopolistic position - virtually less change was needed for a successful adaptation. Other companies which were able to find the right strategic directions or capitalize on *external* success factors in other ways, could possibly neglect systemic and behavioral issues of *implementation* due the mentioned cultural and some actual business factors. The latter could be: a relatively cheap, professionally immobile, and psychologically scared workforce, the employees' adaptation to constantly unorganized/changing conditions (learnings from the shortage economy). As regards change leaders they could be withheld from applying modern behavioral change technologies by their autocratic behavioral patterns. We highlighted that in the contrast of traditional leadership patterns, the mere alternative of applying *behavioral change*

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*management* can be an exaggeration of the change situation for the leader: it can create a supplementary strain on leadership identity beyond that provoked by the focal change itself. We also referred to the "ability" side: lack of appropriate skills on the part of the change administrators. To summarize the situational factors leading to neglecting *change implementation* issues, we could hypothetically say: there was less perceived weight of *internal* success factors within the organizations.

We could observe a special phenomenon at a couple of formerly state-owned companies. The change administrators at these possessed an up-to-date set of knowledge on the direct behavioral aspects of change and launched a - "fashionable" - *behaviorally based program* to support the focal change issue but, at the same time - unintentionally or more or less consciously - let the organization perform poorly on transforming key subsystems. Supposedly this was due to lack of enough experience and/or lack of sufficient motivation to touch the hottest political and professional issues within the organization.

Another specific phenomenon was which we identified as "contaminated" change management where motivation problems plus deficiencies in the experiences of the change leadership played again a crucial role. Examples for this are interventions which start at all the three levels but in which, in a later stage, the positive effects of the *behaviorally based program of managing change* get contaminated by immature leadership behavior.

As regards the specific behavioral context of change programs under Hungarian circumstances, there are critical challenges in redefining the "mindset" of employees. We made an attempt to offer a hypothetical list of the "old" and "desired" type of employee attitudes/consequent behaviors.

In relation to the specific change management approaches and tools the Western organizations have shown more awareness about the possible alternatives between "bold strokes" and "long marches". We argued that the application of the second alternative by the Western organizations would automatically make the employees feel to be more involved or managed in a less directive way. As regards more specific change strategies, among the multinationals we find relatively more systematic effort to *educational* strategies or *convincement on a value basis*. For the indigenous companies *command* was more characteristic. Conscious tactical decisions were to be observed also mainly at the "change professionalist" international organizations.

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