EFFECT OF POLITICAL CHANGE TO THE CHANGE OF CORPORATE VALUES

Zoltán Kovács
University of Pannonia, Veszprém, Hungary
E-mail: kovacsz@gtk.uni-pannon.hu

Emil Nyerki
Prettl Hungária, Szekszárd, Hungary
E-mail: emil.nyerki@gmail.com

Abstract

Lean is the mainstream process improvement philosophy. It has a more or less standardized set of techniques, which are well known worldwide, however the application environments – mostly due to cultural differences – are rather diverse. Hungary has been on the way of political and economical transition since 1989. Following the first free election in 1990 there were several changes in the structure of production and service companies. Previously state-owned "giants" of industry died, others have been privately owned for a long time.
The study examined the lean applications in different, mostly Central and Eastern European countries in transition based on literature review. They carried out an empirical research in Hungary. Original Hungarian companies which existed before 1990 were in the research focus, analysing their lean implementation and corporate values. The research found basic differences in the attitudes before and after the change of economical system, and providing information about the closed gap regarding corporate values of foreigner owned and Hungarian owned companies.
Key words: *corporate goals, transition economies, lean, political change, social values*.

Introduction

Since Krafcik (1988) and Womack (1990) introduced the lean concept, many organisations wished to go through lean transformation. Automobile and electronic industries started to use the new ideas. Successful lean implementation often modified the organizational culture and corporate culture influences the results. As Peter Ducker is often quoted as saying"Culture eats strategy for breakfast"

Components of production systems can be seen in Figure 1. (Kovács & Uden, 2010).

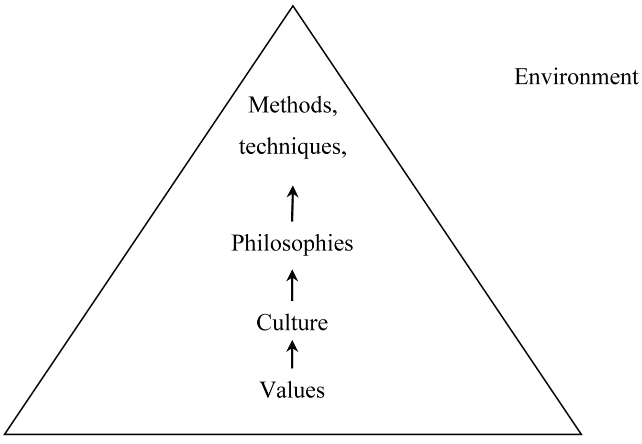

Figure 1: Composition of production systems.

According to this model, it can be seen that the basis of the production systems are values and culture.

There were many changes in Eastern Europe after 1990. Part of the state-owned enterprises were privatized, others rationalized. Many companies went bankrupt. New owners initiated the usage of efficiency improvement techniques and philosophies such as lean. This meant that the former 'socialist' companies had to undergo significant changes. These changes were examined in terms of lean approach, focusing onto the value system.

Literature Review

There are not many publications on lean efforts in emerging countries. Bloom, Schweiger and Van Reenen (2012) conducted the first large-scale survey on management practices in transition countries. They have found that stronger the competition, the higher the multinational and private ownership the better the management. According to their study, lean applications in Central and Eastern European countries were only a little behind their Western counterparts. Countries in Central Asia - such as Uzbekistan and Kazakhstan – had weaker performances than India. Practices are strongly tied to company performance.

Their conclusion, that the continued opening of markets to domestic and foreign competition, privatization of state-owned firms and increased levels of workforce education should promote better management, and ultimately faster economic growth.

According to Stevenson (2011) companies with lean practice have competitive edge compared to those that use a traditional approach.

Glaser-Segura, Peinado and Reis Greml (2009) presented the results of a survey of managers in 248 companies in Argentina, Brazil and Romania. They measured practices relating to quality, waste reduction, and supplier management, as well as their managerial and HR support practices. The result of their study shows that achievements in emerging and transition economies are not as good as they are in developed countries.

Ebert, Tanner and Tutures (1998) carried out an extensive survey involving Romania's manufacturers, which are adopting lean manufacturing systems in an attempt to improve their competitiveness, faced with the fierce conditions of the global market. They argued for the need for changes in the syllabus of operations management and other engineering subjects taught in the country's schools.

According to Glaser-Segura and Anghel (2003) the quality problems of Romanian manufacturers were caused by the influence of old values, from the time prior to the revolution, when the communist government dictated the levels of quality, prices, production volumes, logistics programming and other decisions related to the production strategy. Marinescu and Toma (2008) produced a case study which pointed out that lean production could be successfully applied to Eastern European countries such as Romania. The main achievements of lean implementations are: waste reduction, increased productivity and better teamwork.

Glaser-Segura and Anghel (2003) also state that worker – manager relationships and teamwork changed during the system change in Romania. Before workers chose their managers, which caused egalitarian work relationships.

Methodology of Research

The questionnaire-based on quantitative survey was carried out involving employees and managers representing mainly from the capital city and the western side of Hungary in 2012. Until the closing of the survey we received 246 answers, out of them, 184 came from the required researched company size, it means small and medium size enterprises and companies up to 1000 employee headcount. Data were analysed with analysis of variances, cluster analysis and analysis of regression. Additionally, personal structural interviews had been conducted with 11 partners. These interviews assisted as a qualitative method in the formation of the questionnaire as well as in the evaluation of the findings.

Empirical Research Plan

Like the mentioned countries, Hungary went through political and economical transition after 1989. Hungary has been on the way of political and economical transition since 1989. Following the first free election in 1990, there were several changes in the structure of production and service companies. Previously state-owned "giants" of industry died, others have been privately owned for a long time. The amount of FDI is around 72 Billion EUR, with 23% coming from German investors. Flagships of Hungarian companies in German ownership are Daimler, Audi and Bosch, but there are also several German owned companies, representing the traditional German small-and middle size enterprises (traditionally known in German as "Mittelstand").

The research method was a questionnaire survey. The population was the set of the originally (before the system change) state-owned companies. The sampling was random, but using the snowball method.

Most important research questions:

1. Did the values and goals of the Hungarian companies change, and do the new values support the new goals?
2. What kind of changes can be experienced between previously state-owned socialist companies and the competing companies of our days within the area of the production and quality assurance?
3. Could employees - socialized in the state-owned companies before the political change - make changes in their attitudes and their working methods?

Sample Selection

As shown in Figure 2, the distribution of companies, existing in Hungary in 2012 and the companies measured in the survey are deviating, regarding the size of the company (SBA Magyarország, 2012). In the survey sample middle-and large enterprises represent 83%, this ratio is countrywide only almost the half, 44%. The research is focusing on the medium-sized companies and enterprises with 250-1000 employees. During data filtering, the answers from the focus group can be selected, therefore we have treated the research sample as adequate and usable.

Above the basic characteristics of represented companies (size, owner background), further identification is not used due to ensuring the anonymity, but the following assumptions can be defined:

- The most important data source, the participants of lean conferences and members of the correspondence course of the university, are usually employed by different companies, so the overlapping (more answers from the same company) is limited. Therefore, the estimated number of represented companies in the research being between 210-220, with 175 – 180 in the selected size-category.
- The majority of researched companies are production companies.
- They usually work in the region of Budapest and western side of Hungary.

Last two pieces of information are based on the participants' list of lean conferences and the feedback of members of correspondence course.

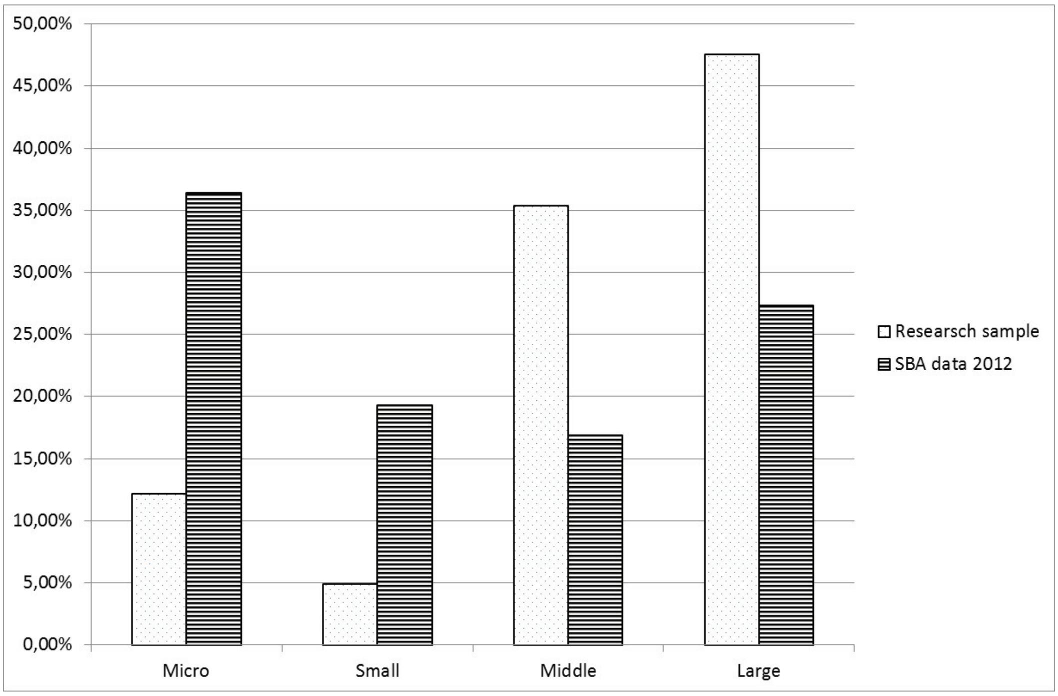

Figure 2: Represented companies from the survey and size of companies based on Hungarian statistics.

As shown in Figure 2, the proportion of the researched company categories (according to the size) in the examined sample is deviating from the proportion of these companies in the country. Research sample, 83% middle- and big sized companies, but the ratio in the country-wide range is only 44%. As research was focusing on the enterprises with 250-1000 employees, and during the data analysis, research sample is clearly filterable, the data source treated as useable for statistical analysis.

Hypothesis Development

The Literature Review pointed out certain national characteristics. While international companies follow the same patterns in different countries – independent of whether these are green or brown field investments – the nature of originally local, 'national' companies is not known.

Since the basis is the value system (Figure 1.) it is a logical question: what kind of value system changes happened during and after the economic – political changes.

The hypothesis: *The economic transformation resulted in a change of goals and values of the companies. Those values are significantly different at foreign owned and Hungarian owned companies. The change of values supports the achievement of the changed goals.*

Research Results

Clustering the research data, the difference of values between the state owned companies before the regime change and the values of contemporary competitive companies is visible:

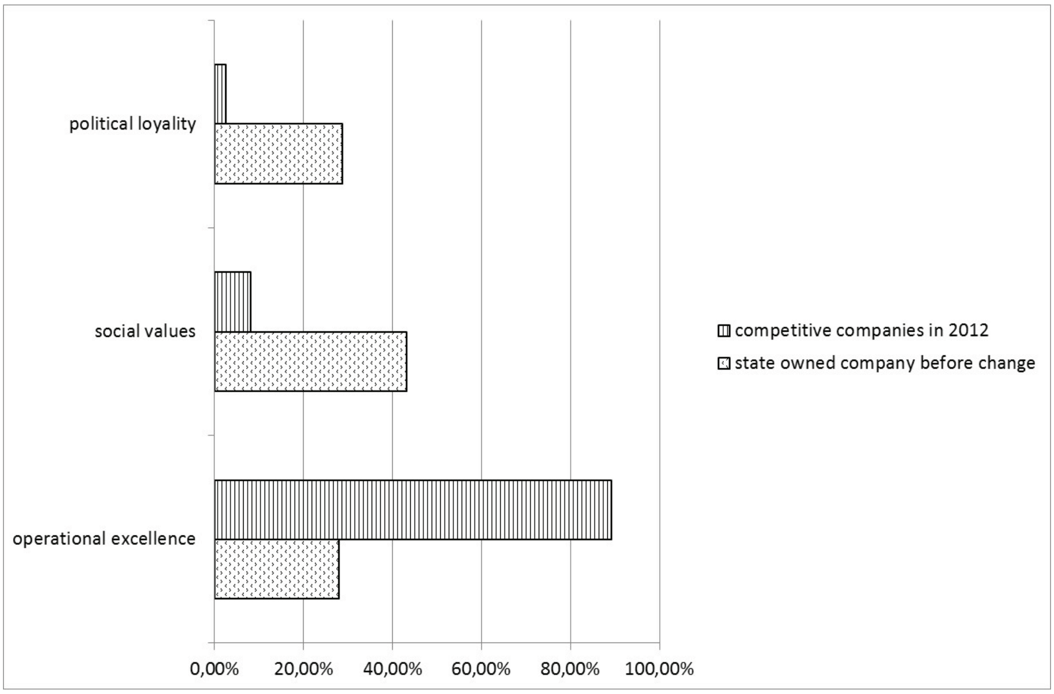

Figure 3: Value-clusters of the state owned companies and the competitive companies.

Leading values of competitive companies are values of operational/business excellence (89%) social values (good team, benefits, secure job) were measured with approx. 10%. For state owned companies before regime changes the social values dominated (43%), the operational/business excellence got almost the same rating, as the values of political loyalty, excluding the political factors. This difference can be reduced for two important areas:

1. Operational excellence: quality, production techniques, sustainable development, customer orientation.

Typical answers to the question: "What are the most positive changes between the state-owned company before the change of regime and your current workplace?:" are the technical updating of production and manufacturing equipment, cleanliness of production area, and the skills of workers. Supposing that such technical developments could have been done without the regime change too, causes this big difference which anomaly suggests that the reasons should be somewhere else. A better technique would not automatically mean the increased ranking of customer orientation, teamwork, acceptance of deadlines. It should point to the organisational- cultural change.

The used methods, reviewed in the previous discussion come from the known tool-set of lean management and quality management. The majority of them were known before the regime change –although they were called something else. Action plans, KPI-s were used for decades, balancing of production line is not a result of regime change. Previously it was called "setting of standard time". Cleanliness requirements were defined as "workshop rules", not as the today well known 5S.

2. Social values: Is the drop in this area so drastic?

Frequent answers included: secure jobs, human relations, social benefits, such as company owned nursery schools, resorts or possibilities to buy the own manufactured products at a discounted price. With some exceptions, they have really been terminated.

PROBLEMS
OF MANAGEMENT
IN THE 21st CENTURY
Vol. 10, No. 1, 2015

Regarding human relations they have been transformed rather than degraded: working "brigades" are changed to cross functional teams, with the possibility to spend time with colleagues, reduced due to limited available free time. Despite this, almost all the companies in the survey declared the importance of human resources. Training, cafeteria systems, improving working conditions are presented as proving this approach –on the other side, competitive companies are asking for "re-payments" from employees: efficiency, discipline, creating added value.

All this, and the behaviour of companies in "crisis situations" like reducing salaries, shortening the working time, layoffs, may create the perception that reduced social values are to the background.

According to "hypothesis" the changed values are different in the foreign –owned and Hungarian-owned companies. To prove the statement, value clusters were analysed based on ownership, too. The results are shown in Figure 3. Although there is a difference (operational/ business excellence 93%-83%, social values (5.6%-10.3%) we would not call it significant.

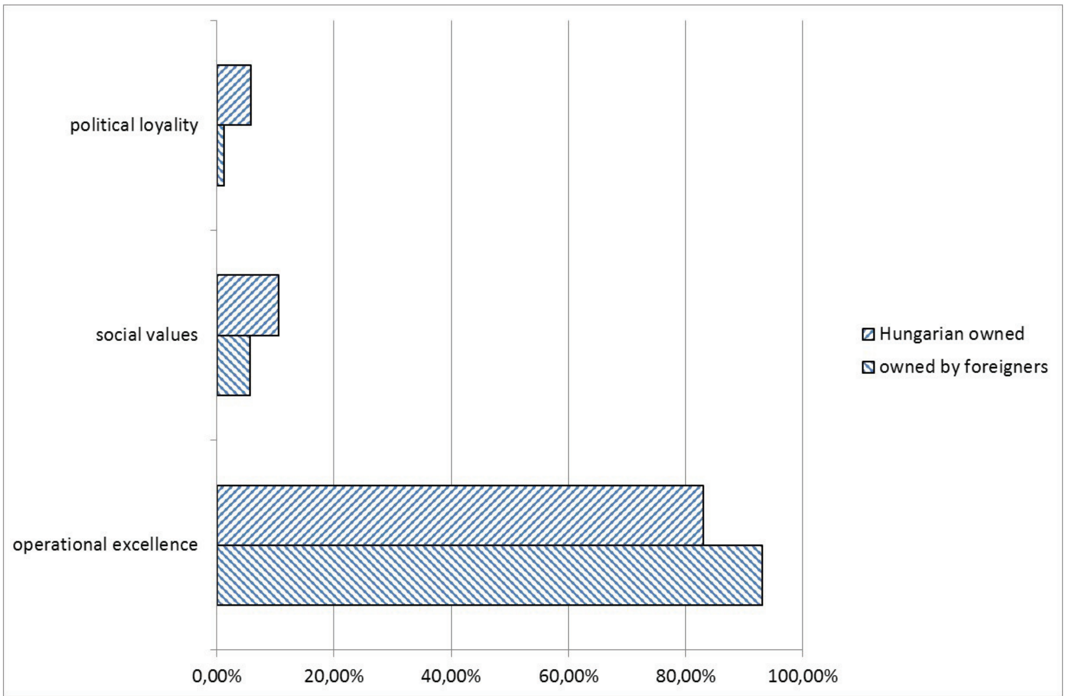

Figure 4: Values of competitive companies – analysed by owner's background.

Thesis

Goals and values of companies changed during the economic transformation, changed values support the new goals.

The researched competitive companies showed significantly different values from the state-owned companies before the regime change. Previous values -political loyalty, fulfilling the production plan- disappeared, efficient operation, customer orientation representing the new values. The low ranking of social values conflicts with the usually communicated employee-oriented approach of companies.

ISSN 2029-6932

Discussion

The research has confirmed that corporate values changed since state owned companies are transformed to competing companies. The values are supporting the changed goals, operational excellence is strongly in focus. This result correlates with the findings of Balaton (1994) „changed economical environment and ownership structures determined the modus operandi of enterprises". Jarjabka (2008) summarized his research with the statement that effect of state owned companies is still measurable in the cultural differences of current Hungarian companies. Tóth (2008) described the limits of development of Hungarian owned companies, mainly caused by cultural aspects. The research could not confirm the significant value differences between the foreigner owned and Hungarian owned companies.

Conclusions

The low ranking of social values conflicts with the usually communicated employee-oriented approach of companies. Almost all companies, declaring the importance of the human resources, stating the special focus towards the employees, but according to the research results this approach is not confirmed. Is it a simple communication issue – employees do not understand, what "people orientation" means, and expect something else? Or are they still expecting the "social benefits" provided from state-owned companies before the regime change? Do they still expect as benefits the free-of charge kindergarten, holidays in the company –owned hotels or apartments, purchasing options of self-produced goods for very low prices- which were just some of the mostly used benefits of state owned companies. Currently, the analysed companies provide training, cafeteria systems, organising off-site events. Another option –and this would be the worst scenario- is to consider whether the companies state one thing and act differently? It should be cleared case by case, otherwise trust with management will disappear. Especially employees of foreign owned companies from highly developed countries reported reasonable differences between the written policies and the day-to day behaviour of managers, and stated the difficulties, caused by this phenomenon. This kind of "communication gap" could kill not only the loyalty of employees towards their own company, but could reduce trust against all policies and statements of the employers globally.

References

Balaton, K. (1994). Vállalati stratégiai magatartás az átmenet időszakában [Strategic behaviour of companies in transition period]. *Vezetéstudomány, 25,* 5-17.

Bloom, N., Schweiger, H., & Van Reenen, J. (2012). The land that lean manufacturing forgot? *Economics of Transition*, *20,* 593–635.

Brunner, F. J. (2008). *Japanische Erfolgskonzepte [Japanese Success Concepts]*. Carl Hanser Verlag, Stuttgart.

Ebert, R. J., Tanner, G., & Tutures, M. (1998). Building the POM curriculum for a privatizing economy: An evaluation from manufacturers' perspectives. *Production and Operations Management, 7* (2). Retrieved January 23, 2009 from http://www.atyponlink.com/POMS/doi/pdf/10.5555/ijop.1998.7.2.171?cookieSet=1.

Glaser-Segura, D., Peinado, J., & Reis Greml, A. (2009). Manufacturing processes and management: Lean manufacturing adoption patterns in industrial organizations in three emerging countries. *Presented at the 2009 POMS Conference*, Orlando, Florida, May 1 to May 4, 2009.

Jarjabka, Á. (2008). Van-e nyoma a hazai vállalatok állami múltjának szervezeti kultúrájuk jelenében? [Is there history of state owned companies effecting the current company culture?] *Marketing & Menedzsment,* XLVII/3, 39-49.

Kovács, Z., & Uden, L. (2010). Conceptual model of service systems. *KMO 2010. Knowledge Conference*. Veszprém, 18-19 May 2010, pp. 117-125.

Krafcik, J. F. (1988). The triumph of the lean production system. *Sloan Management Review,* 30 (1), 41–52.
SBA 2012 évi tájékoztató [SBA 2012 Annual Report]. Retrieved April 15, 2013 from http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/hungary_hu.pdf,
Stevenson, W. (2011). *Operations management / Edition 11,* McGraw-Hill Higher Education.
Tóth, Zs. (2012). *A magyar tulajdonú vállalatok fejlődésének akadályai [Limits in Development of Hungarian Enterprizes].* Retrieved December 27, 2013, from http://hammelhochreiter.com/cegutodlas-interim-menedzsment/a-magyar-tulajdonu-vallalatok-fejlodesenek-akadalyai

Appendix 1

Used questions of the survey related to hypothesis:

Survey Questions
Please rank the following corporate goals based on the experiences from the state-owned companies. (There were possible goals listed to be ranked.)
Please nominate the characteristic values of a state- owned company.
What are the most positive changes between the state-owned company before the change of regime and your current workplace?
What are the most negative changes between the state-owned company before the change of regime and your current workplace?
What was the relation of your colleagues –employee of state owned company- to the company property?
What kind of fringe benefits did the employees of state owned companies receive above the salary?
What kind of criteria should be fulfilled to get a bonus in the state-owned company?
Please formulate your short subjective opinion about the difference between state-owned company and your current workplace.
Please rank the following corporate goals based on the experience at your current workplace.
Please nominate the characteristic values of your current workplace.
What kind of fringe benefits do the employees receive above the salary?
Do you modify machines, production lines, transferred from external location of the company?
Which lean principles are there in daily use?
How frequently are the lean principles used?
How is the benefit of lean methods measured?
How are the defined procedures, processes known by the employees?
How are the defined procedures, processes followed by the employees?
What do you think the cause of phenomena, described in question 29 is?

Advised by Naglis Švickus, SMC „Scientia Educologica“, Lithuania

Received: *May 16, 2015* Accepted: *June 25, 2015*

Zoltán Kovács	Professor, University of Pannonia, Institute of Management, Department of Supply Chain Management, Egyetem u. 10, Veszprém, 8200, Hungary. E-mail: kovacsz@gtk.uni-pannon.hu
Emil Nyerki	Plant manager, Prettl Hungária, Szekszárd, Hungary. E-mail: emil.nyerki@gmail.com