

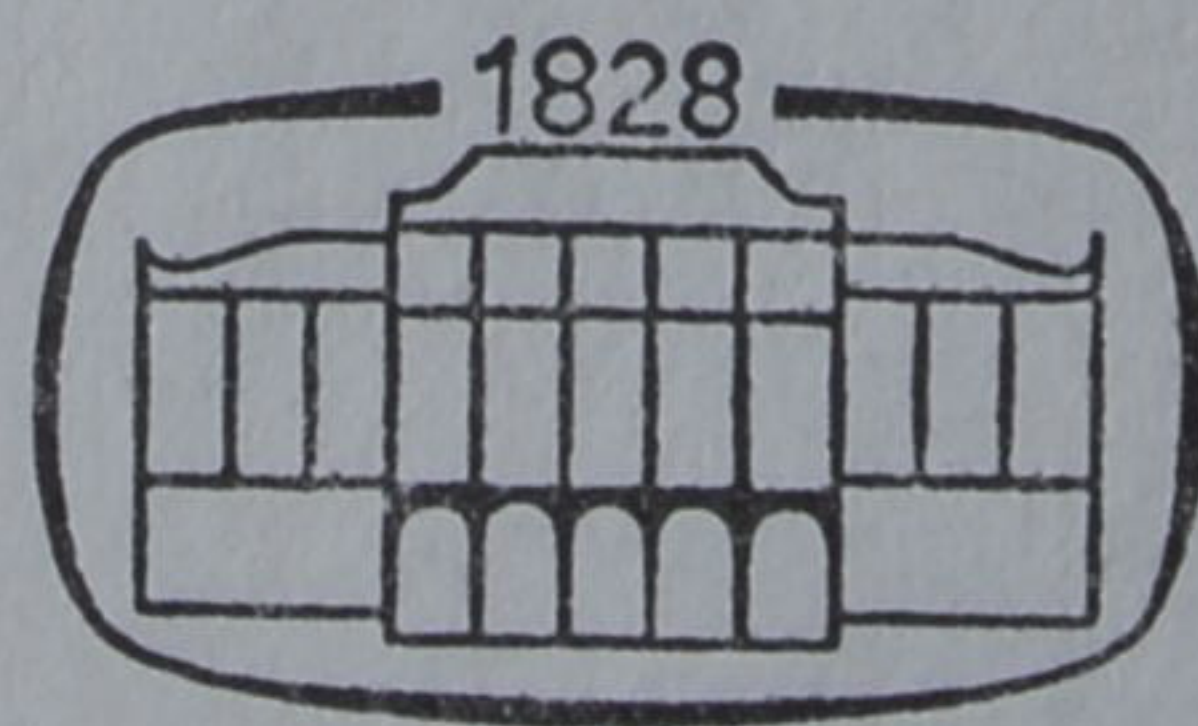
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T. LAKY

## ENTERPRISES IN BARGAINING POSITION

The article treats "bargaining" as the process of reconciling interests between enterprises and central control organs. The objects of the bargain are the resources, advantages and favours necessary for enterprise operations that are at the disposal of the central control organs. Under the socio-economic conditions of Hungary the bargaining usually takes place peacefully, in the form of negotiations. If, however, enterprises do not attain the wanted result, they activate their allies, first of all the sectoral ministry which is equally interested in acquiring the central resources, and they may use also more effective means in the bargain. As a consequence, resources are often allocated not to the desired objectives and not in the desired proportions. The precondition of changing the situation is to increase enterprise independence (autonomy).

The word "bargaining" — as a characteristic expression for the process of reconciling



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The word "bargaining" – as a characteristic expression for the process of reconciling interests between enterprises and control organs has been in use in Hungary for a long time among those dealing with questions of national economic control, first of all among economists. The first expression used was still in the period of the most rigid plan directives – the very apt words: "plan bargain". By now the use of the word "bargaining" has become completely general, indicating that every instruction, desire, and distribution of resources coming from the control sphere may be an object of bargaining between central organs and enterprises.\* There is bargaining about the extent of "expectations", the support and preferences available under various titles, the size of credits, the way of repayment, the lifting of import restrictions, that is to say, about everything in which the interests represented by the central organs may be different from that of the enterprise.

In everyday usage, and even in several economic studies, the word "bargaining" has often a pejorative connotation in Hungary. In the international literature, however, it is used as a simple technical term: to indicate the concept of the process of *reconciling interests*. Accordingly, bargaining takes place between two partners with different or conflicting interests if each of the partners is able to have his own interests accepted, i.e. he is in such a position and in possession of such instruments as enable him to move the other partner to take steps or accept compromises in accordance with his own interests. In this sense bargaining is involved also if it takes place in the most peaceful manner in

\*For illustration one has only to look into the economic periodicals: Andrea *Deák* writes about bargaining for support of investments [1], Gábor *Révész* makes mention of a "regulation bargain" referring to regulation of earnings [2], and Mihály *Laki* [3] deals expressly with the bargaining instruments of state authorities. From a certain point of view my article completes Mihály Laki's study by presenting the situation and possibilities of the enterprise, that is, the other partner in the bargaining procedure, and by outlining the socio-economic bases of the factors that bring about the bargaining between the two partners.



the form of negotiations, as well as if the compromise reached as a final outcome corrects the wrong ideas of planners and thus leads to a solution more desirable for the national economy. I myself use the word in this sense.

Sociologists consider bargaining or the reconciling of interests as an objective social process. Since there necessarily exist in society and economy differing and conflicting interests, also their reconciliation is a permanent process, which takes place amid historically developed rules of the game (forms and instruments to be used). The *existence* of this process cannot be qualified by ethical norms; it is not good or bad, useful or harmful. It is only its forms and instruments, as well as the consequences of the compromises that can be qualified as having socially desirable or undesirable effects.

In the following, relying partly on my own experience \* and partly on phenomena described by others, I shall attempt to analyse *from a sociological aspect* the socio-economic circumstances that determine *the reconciliation of interests in the economic sphere* between central organs and enterprises – in this sense a *social* phenomenon. (This is only one of the possible aspects and does not replace analyses from other aspects.) It follows from the nature of the subject that I do not deal with such cases in which national economic and enterprise interests are in harmony without any particular reconciliation. Further, I shall not deal with the *economic* consequences and economically measurable results of the questions of the bargaining, nor with whether the result may be qualified as good or bad according to some *economic* norm.

How does an enterprise get into a position to compel central organs into negotiations and reconciliation of interests, to lay down conditions and to assert its interests? As a matter of fact, the partners are not equal, one of them – the economic control organs of the state – wield power: they possess manifold instruments for rewarding and sanctioning by means of which they can enforce their will even against the other partner.\*\* The other partner: the enterprise is in a subordinate and dependent position; it is obliged to comply with the written and unwritten rules and instructions of the superior authorities. How can

\*My own experience supplied plenty of information about the “investment bargain” when I examined the decision-making on enterprises investment actions. In 1973–1975 I examined the history of twenty-four investment decisions in eight enterprises, with special regard to the interest-background of decisions and the possibilities of asserting enterprise interests. Partial results of this investigation were published in the studies [4] and [5].

\*\*The word “power” – again differing from everyday usage – has no political content. The above formulation is based upon Max Weber’s definition, according to which “by power is meant the possibility of one or several individuals to enforce his or their will in some common action even in spite of the resistance of other partners”. [6]Héthy and Makó [7] stress it, too, that they use the word “power” as a technical term, “by no means in a political but in a much wider socio-economic sense”. What I consider power positions are those whose holders have at their disposal, in a socially legalized manner, the means – equally legalized – of rewarding and sanctioning, which ensure that they can put their will into effect. Those not disposing of power instruments may get at the most into a bargaining position. (It is a different question that enterprise managers, in a bargaining position with central organs, enjoy a power position within their own organisation, and it is they who hold the means apt to carry out their will – and thus also their interests – more advantageously in opposition to the members of the organization.)



it then get into the position of a partner able to force the other one into bargaining and reconciliation of interests? As experience shows it, the different enterprises do not have equal chances. Some enterprises have never been yet in a position to induce control organs to negotiate, while others continually and intensively influence the intentions of central organs according to their own interests. What gives them this ability? \*

In this article the most important factors of getting into a bargaining position will be treated, as well as the instruments and actors of the bargaining, and, throughout, the interrelations underlying the phenomena: what has brought about and what maintains the bargains about the reconciliation of interests between the two partners by far not in an equal position.

Within the general phenomena, the illustrations are taken mainly from my own research experience, which means that one of the special cases: the investment bargain will be given greater emphasis. This will present a limit, however, only to a more detailed explanation, but will not weaken the validity of the message.

#### Determinant factors in the organization system

Paradoxically enough, the enterprises' getting into a bargaining position is an "irrational" product of the entire control system and the related management organization system planned to function rationally.

I begin the explanation of the preceding statement with an axiom of organization-sociology. According to it, every formalized organization\*\* has, from the moment of its establishment, its *own* group interests different from those of other organizations and sometimes conflicting with them. The particular group interest — partial in comparison with the whole of the socio-economic environment — originates in the necessity that the organization must ensure, from the moment of its birth, the conditions necessary for its existence, such as financial resources, labour, and customers for its products (or services). Conditions are provided by the socio-economic environment, and in a given period in a given — sufficient or scarce — quantity. Every organization strives — in accordance with its vital interest — after ensuring its own functioning. Therefore, existence of the independent organizational interest is at the same time the carrier of differences and conflicts of interests.

\*Héthy and Makó call it "assertion ability".

\*\*In sociology generally two large types of organization are discerned: the so-called "social" or "spontaneous", and the formal organizations. In the sphere of organizations founded according to a plan, prescribing exactly the organizational actions of the members, "imperatively coordinating" their cooperation, and functioning strictly according to rules (and therefore described by the word "formal" taken from Latin, or "bureaucratic" using Max Weber's expression) are listed industrial enterprises and, beside economic organizations, also government offices, hospitals, schools, the army, etc.



Applying the preceding, rather abstract statements to the given situation: under Hungarian conditions (and exactly with the establishment of the organizational system) the resources concentrated in the hands of control organs have become the determinant elements of the socio-economic *environment* of the enterprise.

*Historically*, this situation has developed through the exaggeration of the necessary and possible extent of the planned economy and through the establishment of an organizational system serving direct control. At this point I wish to touch upon only one aspect of this wide sphere of problems.

The existing hierarchical economic organization system of Hungary can be divided – with great simplification – into three different levels. In this approximate schema the uppermost level is represented by the top party and government organizations functioning in the form of bodies and committees (Central Committee, the Council of ministers), and their executive machinery. The second level is represented – though not equal in “rank” – by the National Planning Office, the functional and sectoral ministries, and other superior organizations with national authority. The third and lowest level of the organizational hierarchy is represented by the enterprises. (The schema could be further refined in many different ways, yet it seems sufficient, from the aspect of our subject, to use only a rough outline of the hierarchy.)

This organizational system was intended to satisfy the needs of a strictly centralized control.\* The system following in its organizational principles the army (the type of organization most consistently carrying out strict regulations) promised to be suited for the central control conceived to comprise every economic process and to go into details. As I explained more extensively in the above-mentioned article of the periodical “Gazdaság”: the hierarchical organizational system corresponded to the demand that the instructions directed downwards from the centre should reach the enterprises through clearly defined channels, and possible reactions (signals) should progress upwards. In the functioning of the organizational system the primary demand was that instructions from above should be strictly executed; independent and local actions could get only a very limited space.

This direct form of control requires in fact such an organizational system in which there are not too many small units – thus difficult to “keep in hand” – even at the lowest level. And, though separation of lines of production activities, amalgamation of small enterprises and foundation of large enterprise units were stimulated also by the expected economic advantages as well as by numerous other factors, it is beyond doubt that one of the most important reasons was the requirement of easy controllability. The effort that the smallest number of steps of direct control should be created and that simple and clear channels should reach the smallest possible number of organizational units led in Hungary in the control sphere to the foundation of industrial directorates in

\*The essential marks of the organizational system, as a “model” of the economic mechanism based on plan directives, in which enterprise activities are determined by vertical relations, i.e. those of sub- and superordination were first presented by János Kornai in [8].



command of a certain limited number of enterprises and then to the fast reduction of the number of enterprises. (In 1950 there were still 1427 enterprises. By 1965, that is in fifteen years, their number was reduced to 840; parallel with repeated reorganizations of the control levels, such as the elimination of industrial directorates.)

The 1968 reform of economic control brought a fundamental change in the functioning of the Hungarian organizational system; elimination of plan directives led to the elimination also of the directive relationship between sub- and superordinate units. Yet the organizational system remained intact, though the necessity of its changing had arisen at a time. Finally, for several reasons, and in the hope that the reform of control may be successful even without changing the organizational system, no essential changes have been effected. This partly accounts for the fact that relationships of dependence – even though in a modified form – have revived within the organizational system, first of all between sectoral ministries and the supervised enterprises.\*

To the several well-known undesirable consequences of this situation (such as the lack of flexibility in too large units, their more difficult adjustability, etc.) we can add also the “monopolistic position” of a few enterprises. The latter is undesirable because these enterprises originally founded with a view to specialization and organizational concentration and carrying on certain economic activities with exclusive right, are of large size and have a key role on account of their position: “on the seller’s market”, they can exert a considerable influence on the functioning of the economy.\*\*

That is to say, it is exactly because of the rational control needs of the organizational system that certain enterprises have obtained such position and got hold of such an important role in the functioning of the economy that, in the case of conflicting interests, they are capable of forcing to negotiate and of influencing the decisions of the control organs and thus also of asserting their own interests – partial as compared with those of the national economy.\*\*\*

The primary and natural objects of conflicting interests are the resources, advantages and favours of which control organs dispose. And, though the sphere of centralized resources and advantages changes from time to time, several conditions of the functioning of enterprises are still ensured through the superior control organs.

And, since sharing in the resources and advantages, as well as improving the conditions of functioning are a fundamental and objective group interest, enterprises try,

\*Besides – though now for other reasons – the processes of enterprise centralization are going on. The number of enterprises does not stop diminishing, even if at a much lower yearly rate than before: state industry had 812 enterprises in 1970, and 712 in 1977. Source: Statisztikai Évkönyv, 1977. (Statistical Yearbook 1977.) Budapest, 1978. Központi Statisztikai Hivatal p. 133.

\*\*The “monopolistic character” in socialist conditions was analysed by György Varga [9] and Annamária Inzelt [10].

\*\*\*This question – though from somewhat different aspects – has been treated by several authors. (See for example [11].) It is about this situation that Lajos Zelkó wrote the following: “The power of large-scale enterprises and the fact that they largely concentrate the most highly developed forces of production of the country render them able to assert their interests through the central organs and to a certain extent also at the expense of home consumers.” [12]



as far as they can, to acquire as much for themselves as possible. (Improvement of the conditions of functioning is *an identical but not a common interest* of enterprises. Every enterprise competes for the same resources, while making efforts to assert its own interests. By acting thus, enterprise managers at the same time fulfil social expectations: it is their duty to care for improving the conditions of functioning for the enterprise in their charge.)

Among the enterprises, however, it is exactly the largest ones or those considered to be of key importance or enjoying a monopoly – even if they are smaller – that are really in a position to have a larger share in resources and to influence the decisions of superior authorities, since *the basis of the bargaining position is the place of the enterprise taken in the national economy*. (As the economic director of a large-scale enterprise said of their own situation: “Even the ministry is careful with an enterprise in which 15 thousand men work and two priority programmes of special importance are on their way – you must not fail here, and the ministry is well aware of it.”)

As a consequence of the changing needs of the economy a great number of enterprises may get into a position in which, transitorily at least, the demand for their products grows unexpectedly, and their role becomes more important within the overall functioning of the national economy. (For example, its products are needed for a certain large investment.) Therefore, temporarily, several enterprises can acquire a bargaining position, when those disposing of resources are obliged to take their demands into account. A permanent and firm bargaining position comprising various interests of the enterprise is rooted, however, typically in a permanent monopoly, particularly if it is coupled also with large size, as is typical in Hungary.

The bargaining position of the enterprise may be strengthened also by some other factors. Such are, for example, outstanding economic results, especially those attained on the western markets. The hope to keep these results prompts superior authorities to accept a wide variety of enterprise interests; the enterprise may enjoy special rewards for its market results. The bargaining position may be further strengthened by the person of the manager, that is, his direct personal relationship with the superior control organs and the ministry. (The higher the level of the relationship, and the more direct it is, the better the position of the enterprise in which it can negotiate with other superior authorities.\*)

\*A similar conclusion was reached by Tamás Földvári in his analysis of the position of enterprise and cooperative executives: the managers of small- and medium-scale units (and thus in most cases of cooperatives) have much smaller influence on the decisions affecting the general and permanent conditions of the economy than have the managers of large state enterprises. [13] We can find such conclusions in a great number of studies. In the Institute of Philosophy of the Hungarian Academy of Sciences case studies were made of six medium-scale engineering enterprises of Budapest. In the summary the authors described their situation among other things by saying “Between large-scale enterprises in Budapest and the sectoral ministries a very close relationship has evolved. As opposed to this, between the medium-scale engineering enterprises and the Ministry of Metallurgy and Engineering loose and incidental contacts are to be observed . . . the latter enterprises are less able to influence decisions of superior authorities than the above-mentioned large-scale enterprises.”



And the enterprises do make efforts at achieving a good or better bargaining position. A well-proved way to this is *extensive development* either through enlargement of the technological bases, or by increasing the staff; though under the Hungarian conditions the two are still usually concomitant. Investments can help to expand capacities, and increased production attainable with the higher capacities helps to increase the role played in the economy. Growth may help small enterprises also to get into a "higher" category, for enterprises of "special importance": those in categories "A" and "B" are first of all delimited by the size of the value of output. In today's labour shortage situation the characteristic way of growth is amalgamation of small auxiliary – subcontractor – enterprises into large-scale ones. Enterprise centralization, still going on in Hungary, is partly explained by this fact. In this instance it is not stimulated by the central organs, but initiated mostly by the large-scale enterprises. The economic argument is usually prevention of troubles in cooperation, and rendering secure production in the large enterprise; yet the enterprise is stimulated also by the possibility of growth.\*

One of the consequences of the slow but continuous centralization process is that a relatively large number of the enterprises – ever less in number but of constantly increasing dimensions – acquire a permanent and firm bargaining position; it is the partial interests of these enterprises that may deflect central intentions from the plan. One of the most obvious examples to illustrate this is the yearly repeated transgression of investment estimates. Against government intentions Hungarian enterprises have always got considerably more investment resources than would be allowed by the equilibrium and development of the economy, and the investments "above" the plan have been the cause of disproportions and tensions in the economy for years. Another example is the growing sphere of enterprises exempted from the general rules, judged individually and enjoying various exceptions and benefits.

In the given situation the primary problem is not that enterprises influence central organs: this might as well serve a more harmonic functioning of the economy. Yet, influencing itself is of an uncertain outcome, for in the given organizational system – at the higher levels of which there also exist separate organizational communities with particular interests – the enterprise interest may be asserted also in an uncontrollable way, for example in the transfigured form of a higher-level, ministerial interest. The real problem is that, as a consequence of the inherent laws of motion of this organizational system, it is the dependence relations that strengthen instead of the desirable enterprise independence. The key question is thus the *extent* of central control: how much the central authorities wish to keep in hand from the conditions of enterprise functioning; how much profit they tax away from enterprises, and to what detail they prescribe the

\*Annamária Inzelt publishes the data of ten large enterprises she has observed: between 1969 and 1976 nineteen small enterprises were amalgamated; while only one enterprise separated and became independent. According to the data of the 1977 Statistical Yearbook there were 280 enterprises supervised by councils in 1970, and only 168 in 1977, that is, one-third of these enterprises were amalgamated during the period. [15]



enterprise on what it may spend the part left to it, and what result it is to achieve each year. No optimum proportion between central control and enterprise independence could be found so far; and increased dependence in the given organizational system renders the reconciliation of interests between enterprises and central authorities permanent and extends it over a growing number of areas.

### The internal relationships of the organizational system

In order to understand the course of the bargaining process between enterprises and control authorities, as well as its special conditions, we have first of all to examine a few characteristics of the relationships within the organizational system.

The once conceived rational, so-to-say "military", hierarchical system of relations became unintentionally transformed during the past decades: along the lines of formalized and prescribed relationships personal or informal relationships have strengthened.

Looking at it only from the enterprise point of view: the enterprise has, among its various relationships with its environment, formalized and prescribed relations with the control authorities and different organs of national or regional scope of activity (e.g. the bank, regional administrative, social and political organs). There are persons with definite functions within the enterprise obliged to handle these relations within prescribed or expected forms. (Such relationship is maintained by the enterprise director with the regional party organization, the deputy minister, the head of department of the ministry, by the major departments of the enterprise with the corresponding departments of the ministry, and by the economic director with the bank, etc.) Participation in the occasional or permanent work committees – such as the corresponding development committees of the ministry and the National Technological Development Board – can be considered as part of the formalized relationships, even if somebody is drawn into the work not as a representative of the enterprise, but as an acknowledged specialist.

These relations of dependence and work are at the same time, in a broad sense, those of information: it is along the lines of formalized relationships that pieces of "information", instructions, and suggestions basically determining enterprise activity are flowing.

Along these strictly defined and regulated lines of formalized relationships, however, human beings are in contact with each other. Therefore, along these lines, and closely intertwined with (partly, however, independent of) them, *informal relations based on personal acquaintance necessarily develop*.

Informal relationships intertwined with official ones have been in existence for long and in a wide sphere at almost every level of the hierarchy of enterprises and central organs. (Between the managing director and ministry directors, between heads of major departments and heads of departments, with every executive of the enterprise officially entitled to maintain external relations.) The general and comprehensive character of these relations is not independent of the relatively small size of the country, as well as of the



origin and career of those working in economic control organizations, and of the permanent cooperation — now often over several decades — between enterprise managers and those working in control authorities.

My own experience agrees with the observations of various approaches in the Hungarian organization-sociological researches, proving the important role of informal relations: as everywhere in the world where enterprise managers expect certain advantages from their wide social and work relations, also in Hungarian enterprises we find clearly an effort at strengthening the personal character within the formalized relations. "Because circumstances are very uncertain and changeable, personal and subjective judgement receives by all means a great importance in decisions. Therefore, we try, even instinctively, to develop good personal relations with those in the superior authorities, and to give a favourable picture of the enterprise, since this might increase the changes of the enterprise in getting its share from the various resources and grants." — an enterprise manager said.

Under the previous economic control system in Hungary, among other things exactly because of closer dependence, the direction of the informal relationships of enterprises was also more concentrated: mainly on the ministry, the National Planning Office and certain party organizations; by now, because of a more divided allocation of resources and advantages, the widening of relationships has become more important. As one of the enterprise directors put it: "I might say that we organize relationships with the various institutions purposefully." And new acquaintances resulting from the purposefully organized relationships contain at the same time new possibilities for establishing closer personal relations: by recognizing similar efforts and views, as well as advantages that can be granted mutually.

Closer personal relations do not necessarily involve friendship outside the working relations, in fact, they are in most cases limited to the latter. Nor are they based on any illegal advantages, though enterprises are ready to grant "favours", subject only to moral condemnation, e.g. they make available certain products not yet on sale or out of stock in the shops; sell at factor prices certain products not for sale in shops; perform services out of turn; exchange goods under guarantee without making difficulties, etc. Yet even without these favours a personal touch will be given to official relationships among one-time university colleagues, or those coming from the same county, or from the same workplace, and among those working within the same committee, etc. These relationships are carefully watched everywhere: "A great number of present-day leaders went from here, social organisations as well as the trade took them. The minister was an engineer here, the head of department X of the ministry used to work here, and there are a lot of others in the ministry who were working here previously." (Secretary of a trade union committee.) These are the people upon whom enterprises first of all rely.

One of the most important advantages of such relationships for the enterprises is information about future possibilities. The reason is that potential actions and available financial resources are only partly explored through the official and institutional external relations of the enterprises. Those having good relations may know, even before the



announcement of tenders and programmes, which superior organ has money and for what project, what will be the terms of the tender etc. Further, it is by using these channels also that the enterprise starts its own initiatives. (Fragment of an interview from the history of a development action: "How did you know that this action should be started exactly now? — Those who have good friends in the ministry will be told confidentially — since these are mostly not brand new and unknown things — to submit the proposal as soon as possible." — a head of section.) The relationships of the enterprise connecting it with its environment and the more personal ones intertwined with the former are not of the same value. Although there may be exceptions, the information coming from a higher level of the control hierarchy is generally more valuable — because more reliable; for example information given by the responsible leader in the ministry to the enterprise director.

Although the enterprises try to establish good connexions with every organization in the control sphere, they have usually the strongest relations with the sectoral ministry.

Beyond the direct and everyday working and dependence relations, the closer personal ones have been formed and strengthened by several factors. First of all the evidency of common interests. There have always been shared interests to the extent of common dependence on the highest level of the hierarchy: the sectoral ministry responsible for the functioning of the enterprise, and the enterprise under its control were both interested in that the latter should be given tasks that can be securely fulfilled, and with them as much means, investment, wage funds and import purchasing possibilities from the central resources as is possible. And, though after the 1968 reform enterprises tried to act as independently of the ministry as was possible, to the extent as means became recentralized, their common interests have strengthened again.

Besides, for those belonging to the closed community of a certain sector it was this sector that provided a natural scope of movement at the time of important organizational reshuffling; a great number of the ministerial staff used to work in the enterprises, and a great number of the enterprise staff had been formerly employed by control organs, and this fact shaped personal relationships in a natural manner.

Today the nature of the relationship between sectoral ministries and the subordinate enterprises could be perhaps best described by the words "mutual understanding". The interests of the enterprise and the ministry may be different or even conflicting in a number of questions (for example, in the existence of the subordination relationships, or in the methods of control), but their common interests in acquiring central resources and ensuring conditions for development are obvious for both. The enterprise counts on it, and may justly count on it, that the ministry will do its best, as the development and safe functioning of an enterprise involves also the modernization of an industrial branch, and the easier fulfilment of its tasks.\* Therefore, even if in other questions it happens that an

\*In the opinion of Miklós Mandel [16]: "The consequences of the attitude of sectoral control organs can be best demonstrated by their role played in investment decisions. Their attitude in the investment decision process is not motivated by the efforts at equilibrium of the national economy,



enterprise of key importance and with an eminent director by-passes the ministry, in actions initiated for obtaining various resources and advantages usually both parties readily cooperate.

It is the assertion of interests in close alliance with the ministry, practised now for several decades, that has led to today's characteristic "understanding" relationship. To illustrate this relationship, I shall quote two examples — entirely in agreement with my own experience — from the study of Erzsébet Szalai. At one of the enterprises under examination the prevailing situation was described as follows: "The ministry does not give orders as a sergeant does to the soldiers, and the enterprise does not wait to be instructed, but goes, by its own will, to meet (expectable wishes)". At another enterprise: "The ministry states its conditions in advance when negotiating with us, and they listen to and observe also our conditions. We ask certain things from each other and try to fulfil requests on both sides. But the money is in their hands, thus, all that is, on their part, just a polite, proper and cultured form of instruction. It would be illusory — even theoretically — to oppose the ministry. Thus, if you like, we have no great independence, yet we are content with the working style of the ministry in our mutual relationship." [17]

The enterprises know that, if they show understanding for the development targets and indicators made obligatory for the ministry and do their share in them, the ministry will also show understanding if the enterprises ask for help, mediation, and a share from the resources allocated to the ministry.

The strong informal system of relations intertwined with the formal ones is the product of objective conditions: the enterprises try to expand and strengthen it to the extent that their functioning depends on the conditions concentrated in the control sphere. And, the stronger the dependence, the more also the *direction* wherefrom the enterprise obtains information gets deformed. In certain cases it becomes, namely, much more important for the enterprise to know, what the intentions of superior authorities are, what new measures and regulations affecting their functioning are on the way, where and for what could money be obtained, than market information: for which new product and where could market be found, etc. That is: enterprise information gathering is much more focussed on the superior authorities determining the conditions of their functioning, than on the real sphere of the market and economic activities.

It depends on the planned changes, the various possibilities, and on the information obtained about the amounts allocated to different organs for development purposes, which of its interests the enterprise will try — if it is able — to assert, and with what means. Within an enterprise it is usually those maintaining the most important external relationships who also make up the centre of the power group of common interests in which the desirable targets "corresponding to enterprise interests" and to be attained are formulated: and it is they who conduct the bargaining on behalf of the enterprise and in accordance with its interests.

nor by efficiency considerations, but by the development needs of the given sector... It is their natural purpose that the enterprises working in fields within their sector should develop, and they are interested in acquiring the means of accumulation necessary for development."



### Bargaining positions

Now we shall seek answer to the question: what are the *permanent* factors that constantly reproduce bargaining positions?

According to my experience, and the same is proved also by the above-mentioned article of Mihály *Laki*, bargaining positions are brought about by two, sometimes intertwined and mutually amplifying circumstances: dependence of the economy on the activity of some enterprise, and the uncertainty of a great many circumstances of decisions on economic actions. Both are rather well-known from daily experience in Hungary, as well as from the theoretical approaches of a number of scientific disciplines. By mentioning them I wish rather to illustrate how the circumstances of the functioning economy constantly reproduce the possibility of reconciliation of interests and bargaining between enterprises and central organs.

The dependence of the functioning of the economy on the enterprise has been so far best perceivable in two extreme cases: if the enterprise becomes unviable, or, on the contrary, when it achieves exceptional success. In the first case the central organs are obliged to help among other things because in the given conditions the economy cannot dispense with, nor can it substitute, the activities of enterprises, first of all of those with a specialized line of production and working on a large scale. (What is more, unviability may have come about without the enterprise's own fault: it may be the consequence of the rigid price system, disadvantageous interstate commitments, missed investments, etc.) The danger of liquidation brought about in such cases a bargaining position: the central organs were obliged to accept the arguments of the enterprise that had got into trouble and to grant it resources, advantages, and favours. To bring about such a bargaining position an assumed or real danger of getting into trouble was enough — fear from the dependence of the economy prompted central authorities to take steps.

While in the preceding case it is the obligation to ward off troubles and damages in the functioning of the economy that brings about a bargaining position, the real reason is, in fact, the dependence of the economy on one or another large enterprise, even if the national economy can gain advantages through the activities of an enterprise — promising to be successful in a certain economic situation. The criteria of "success" change from time to time. In recent years exporting ability to the capitalist market has become one of the main measures of enterprise success. Therefore, the chance for every new successful business creates a bargaining position between the enterprise and the control organs; and the enterprise asks — against the advantages to be gained — for additional resources and preferences, urging control organs to a reconciliation of interests.

Beyond the above-mentioned cases of the offensive and the defensive type, bargaining positions are continually created by the most often inevitable uncertainty of success of particular actions affecting the central resources, that is, of the ratio of input to output. And in that case it is all the same whether the particular action was initiated by the control organs or the enterprise; or which is the party whose interests were given preference at the beginning.



The uncertainties may be demonstratively illustrated by the investment actions we examined.

Among the twenty-four investment actions there were some that cost several thousand million forints, and others that cost only a few millions, there were large-scale reconstructions and individual purchases of expensive machines. Only four out of the twenty-four did the enterprises finance from their own development funds, the rest were more or less supported with external resources. (Eight of them were fully covered from central financial resources, eleven were covered in most part; and one was covered in a larger part from enterprise resources than from external ones.) It goes without saying that in the case of every action the decision on which is made at levels superior to the enterprise, the financing organ can state its conditions and stipulations. It can clearly define, e.g., *for what* it gives money (that is, it can determine the particular development project); or how much money it will give (thereby delimiting several details of the actual project, such as the size of the capacities to be created); or on what terms of repayment it will give it (in what instalments and for what period, etc.); and enterprises have to comply with the stipulations of the financing organs.

Financing organs set a large number of conditions also in the case of the actions under examination. With all the twenty actions supported from central resources it was stipulated that the attainment of the prescribed indicators of returns had to be proved (verified); in thirteen cases the size of capacities to be created was stipulated; in a few cases — mainly with large-scale reconstructions — the stipulation was concerned with the technological standards; whether the project should be the most up-to-date one or only moderately so; for thirteen actions the market where the technical means had to be purchased was stipulated, etc.

However, it is characteristic of the stipulations that they are not given once and for all, but are subject to changes according to various circumstances. (The causal chain of factors bringing about changes would lead us far — to the functioning of world economy producing unexpected changes, to the development of the international relations of the country, etc.) In addition, a number of changes are co-determined: a change in some stipulation or condition entails changes in several other stipulations and conditions. From this point of view the most important thing is by all means the *size* of the amount to be spent on development: its changes entailed changes in other factors in seventeen cases out of the twenty-four. Changes in the mode of financing (the amount or ratio of central contribution, the amount and terms of credit, etc.) caused changes in other conditions in eighteen actions. Changes in the size of capacities to be created entailed changes in other factors in nine cases, those in the market where equipment had to be bought in eight cases, and the changes in requirements concerning the technological standards caused changes in other factors in seven actions.

What is more, certain stipulations and conditions are changed several times, thus rendering permanent also the uncertainty of other factors. (The amount to be spent on development changed several times in seventeen actions, the mode of financing also in seventeen cases, the size of capacities to be created was modified several times with



fourteen actions, and the requirements concerning the technological standards of development as well as the market where equipment had to be acquired changed several times with seven actions each.)

The enterprises affected viewed it thus: "The investment programme had numerous versions: It had about sixteen or eighteen, the most recent ones we called 'today's current issue'. The reasons for the changes were: "now the investment amount changed, now the credit, or the construction, or the size of our own funds, etc." (An economic director.) At another enterprise: "An investment — a million documents, discussions, recommencements. This is a long and sad story: long because of the bureaucratic process, and sad because we had tried a lot of things before the different conceptions were formed, we made changes; each needed months of revision. . ." (An economic director.)

This changeability — to some extent a necessary concomitant of any functioning economy, a requirement of the adaptivity of the economy to the incessantly changing external and internal conditions — is usually examined only from the economic aspect as a factor of uncertainty and risk. In the sociological sense changeability can be interpreted as a *symptom*: as an indicator of the *possible* success of efforts at asserting interests. Namely, changes initiated by either of the parties and for any reasons will urge them to further reconciliation of interests.

In the new situation establishing itself under the changed conditions earlier compromises lose their validity, and one of the partners starts the bargain anew.

The reconciliation of interests, that is, the necessity of seeking a compromise satisfying both parties is rooted in the fact that the interest of enterprises is to improve the conditions of their own growth and functioning, while that of the organs disposing of the resources is to "invest" to the best effect the amounts put at their disposal, and to select the actions to be preferred and the optimum size of their input accordingly. Yet, selection of the actions judged "the most profitable" takes place under the conditions, needs, momentary and perspective demands of the functioning economy, under its given social conditions and in its human communities. Even seemingly economic actions are not only economic, but are subject to social and political criteria. Therefore, it may be often a stronger and more justified argument than the economic one that some action "cannot be postponed", and a firm that has become unviable "must not be closed down", etc.

It is the *existence* of the systems of criteria — altered necessarily from time to time — of the selection taking place under changing conditions that creates the particular bargaining positions and enables enterprises to influence decisions according to their own interests. And, as it has been said earlier: the more dependence becomes intensified, and the greater the number of resources and conditions necessary for enterprises to function, of rewarding and sanctioning instruments the central organs wish to keep in hand and decide about their use, the more of the factors will be subject to bargaining, that is, there will be a growing number of such about which a bargaining position may develop.

As a result of the inevitable uncertainties, every external need and instruction contrary to enterprise interests may become subject to bargaining. In the course of examining investment decisions we have found that, though the dominating position is



undoubtedly held by those disposing of the resources: they can accept or refuse proposals and dictate conditions, enterprises are not defenceless against events, passively awaiting decisions to come "from above", but they are active participants, having their share in forming events. The enterprises affected are able to assert their own interests even in the case of developments covered fully from central resources. Every stipulation (size of the amount, form of the grant, mode of utilization, etc.) is weighed separately, and compared with their own interests, and they use any means to bargain – or they give way; as dictated by their interests. In the case of investments enterprises usually try to acquire the largest possible amount, but they have also other important considerations: e.g. that they should receive the money at the most favourable terms and according to the best schedule, and that the least possible number of stipulations should be made in regard of utilization, and these in the clearest terms and so on.

How can they achieve this?

### Means for the assertion of interests

In the long or short process of bargaining the parties are bound usually by certain "rules of the game", written and unwritten social values and norms, which more or less delimit also the *means* to be used in the course of bargaining to induce the other party to make compromises. These change from time to time, parallel with changes in values and norms. It is not by chance, for example, that to the one-time plan bargain not the picture of an enterprise prompting or forcing the other party to compromise was attached, but rather that of a "pleading" enterprise which tried to reduce somewhat its obligation, and used to "cry" for more resources for the fulfilment of its tasks. Those representing the central will could also use other instruments: insubordinate enterprise executives were amenable to legal action, and such cases did indeed occur. Although we may be certain that the enterprise had even then other means beside pleading (for example it had allies able to efficiently support its request, friends were ready and in a position to intervene on its behalf, and it had even economically forcing means), yet it seems that among the means "crying" was the dominating one.

Bargaining takes place today peacefully, in the form of negotiations. The superior authority does not give orders "as sergeant" to the private and the enterprise is prepared to go to meet desires coming from above, but within the peaceful forms it fights persistently and using various instruments for the assertion of interests.

One of the best possibilities to assert enterprise interest is to participate in the work of committees that formulate national and sectoral development directions. These committees have already been mentioned as one of the scenes for establishing relations. Participation is, however, also a means for the assertion of interests: many enterprise initiatives can be thus made a part of long-term conceptions.

For illustration of the identical efforts of each enterprise let us quote the following examples: "We work together with our superior authorities – the ministry, the



National Technological Development Board and the National Planning Office – at various levels, and take part in working out long- and medium-term conceptions as partners. Personally the technical director, myself as head of the design department, and the head of the development section take part operatively in working out long-term conceptions and we try to shape them according to our interests. At the same time we are able to obtain information at the necessary level.” At another enterprise: “At present we participate in the work of three national committees; beside, I prepare proposals for a great number of commissions of the National Technological Development Board. What I am working at now deals for example, not only with our enterprise, but also with the perspectives of the whole subsector. I can say that in this way our enterprise plays a determinant role in the whole industry. I do not say, of course, that we “make the rain”, but we do have a say in what will be the development conception of the sector” (a technical director).

The interrelation is simple: if the long-term conception becomes a programme approved at an adequately high level, the enterprise can apply for the necessary support for its innermost ambitions as for an action “of national economic interest”.

Among the most widely used instruments of bargaining we find in a peculiar way, the profitability (efficiency) estimates of enterprise plans, undertakings, and investments. Since the enterprise makes these not primarily for its own use, but for its superiors, it is able – if dictated by its interests – to conceal the internal inconsistency and weak points of the plans, as well as its own reserves; and it can thus promise better results, at least on the face of it, in order to increase its chances for obtaining the resources. Merely as a consequence of the often inevitable uncertainties of the initial data of profitability estimates the enterprise is able to manipulate figures within certain limits, and to find the modes of computation that will “produce” exactly the numerical results defined in advance, in some cases laid down as a stipulation. As was put at one of the enterprises: “one can compute in many different ways – everybody knows that”. It can be done for example with the aid of an “appropriately” selected world market price, sales directions, indicators corrected this or that way, etc.

And, though a vast number of computations, documents, and drafts are drawn up, and bargaining goes about the figures in them, the organs demanding exact computations as well as the enterprises know that data and computations are always rather uncertain for several reasons, and also because of certain – not economic but social and political – considerations often push even the “best” figures to the background.

Therefore, computations of more or less uncertain value are rarely sufficient in themselves; for a successful bargaining several, parallelly applied means are needed.

Such is to make use of personal connexions. The enterprise not only widens its relationships purposefully, but it contacts, whenever necessary, those prepared to help with information, advice, and intervention. That is how decisions can be influenced the most efficiently, and in this way human connexions within the organizational system become important factors in selections and thereby also in the actual shaping of economic processes.



Another means is to mobilize allied organizations and institutions. Beside the sectoral ministry as number one ally in certain problems, the enterprise has its natural allies usually in the *regional* administrative and social organs. The development efforts of an enterprise are very often expressive also of local regional interests (for example, enlargement of local employment possibilities, industrialization of the area, raising the living standards of the local population, etc.). Therefore, the member of parliament, the council and other social organs are ready to represent the development efforts of the enterprise as *local* interests.

Enterprise executives provide their allies also with the arguments which each can use in their own line. Among the arguments formulated for the allies in the first place are those that prove the national economic importance of the action, particularly if the enterprise wishes to raise some of its own conceptions to the rank of "national economic interest". Another form of mobilizing the allies and providing them with arguments remains "crying". Even if there is a little self-mockery in what an enterprise manager said about their own role and the relationship between the enterprise and its allies, it is not far from truth: "When the enterprise is told what its obligations will be for exports to socialist and capitalist countries, and how much basic material it has to produce, that is to say, when the production plan is thus laid down, the enterprise starts crying that it has not enough labour and machinery, etc. The general manager and his deputy cry to the minister and the deputy minister, the directors cry, everybody cries to everybody. The first version was presented also to the district party committee, there was crying, too. In order that an enterprise can adequately ask for what it needs, every leader has to shed an adequate amount of tears in his own line. This is where the enterprise managers have a primary role."

If, however, the above-mentioned instruments to bring success, enterprises — particularly those in a good bargaining position, that is, holding a monopoly — can resort to more efficient ones, making use of the dependence of the economy on them. It may be enough for the enterprise to announce: if it does not receive the conditions asked for, it cannot fulfil its delivery obligations. For an illustration of this general and characteristic situation I shall quote only a single example, again from the study by Erzsébet Szalai. The production director of an enterprise put forward the following argument, after their investment credit application had been refused for the third time: "Under such conditions, what can one say? That some of the equipments will not be delivered." [18]

The justification of this argument is hardly questionable. In the given circumstances the enterprise can justly expect that if the national economy makes demands on it, it should also provide for the necessary conditions.

Yet further steps may also be taken beyond mere argumentation. If the monopolistic form rearranges its production activities in a way that supply of certain articles becomes irregular, customers will try to get competent authorities to intervene, to help, and to eliminate somehow the "bottleneck".



In the case of such rearrangement the enterprise can usually refer to its own financial interests: the article produced is more profitable than the one neglected. ("In my opinion, the firm's interests are clear: production of the material-intensive article destined for the socialist countries has to be pursued even at the expense of home market obligations, to the brink of scandal. What are the consequences of failing to meet home obligations? Imports will grow a little. Not too much, since control is strong in this field. Therefore, a shortage will appear sooner or later on the home market. This will be noticed, however, only later, and it is in the interest of the enterprise to pursue this policy as long as there is a scandal, and large customers start to urge the ministry. . . Then, sooner or later, a solution will have to be found in some way." — Head of a commercial section.) The "solution" may be a rise in prices, subsidy, or investment — the enterprise will know what is most advantageous for it.

With the most efficient instrument, that is, by making use of the dependence of the economy, the enterprise does not threaten the ministry, on the contrary, it supplies thereby the weightiest arguments to its natural ally: the ministry representing its interests in this question.

In the given situation the enterprises can more clearly survey their possibilities for asserting their own interests than can central organs. While the latter are influenced in their actions by world economic events as well as by the socio-economic conditions of the country, to which they have to pay attention constantly, the enterprises can turn their attention in a great part to their superiors, since their conditions of functioning depend in some cases more on them than on the changing conditions of the foreign and home economies.

Therefore, if their chances for a more independent management are deteriorating, that is, under conditions of intensifying dependence relations, it is in the interest of enterprises that the possibilities of access to resources and of influencing central decisions should not change. In the recent past, at a conference with enterprise managers, among the proposals submitted in writing in advance there has been one according to which external investment resources ought to be available in the future exclusively in the form of bank credit. Representatives of the large enterprises of different sectors all protested, using as counter-argument the "hairsplitting" procedure of the bank. What they would approve of: the highest possible degree of enterprise autonomy, its right to dispose of capacities, profit, and development funds. If, however, that is not possible, the well-known and proved practice of redistribution is more advantageous for them than a partial change: to enter into bargaining with perhaps such a partner against whom they are not in a good position, on whom the tested means of bargaining have no effect, and existing common interests and personal contacts may be eliminated, etc.

Therefore, as a result of circumstances having become permanent conditions by now, in this organizational system planned to function rationally the national economic interest can be asserted only in a lopsided way and deviating from the desirable direction in the course of bargaining about so many factors of management. Among the conditions of greater harmony between the two kinds of interests there are also



the gradual, permanent and deliberate transformation of the organizational system and of its functioning conditions, as well as the creation of better conditions for a more autonomous enterprise management.

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## «ТОРГИ» МЕЖДУ ПРЕДПРИЯТИЯМИ И ОРГАНАМИ ЦЕНТРАЛЬНОГО УПРАВЛЕНИЯ

Т. ЛАКИ

В статье рассматриваются «торги» как процесс согласования интересов между предприятиями и органами центрального управления. «Торги» ведутся из-за ресурсов, необходимых для деятельности предприятий, преимуществ, льгот, которые могут быть представлены органами центрального управления. Шансы предприятий в получении этих ресурсов и льгот неравны. В более благоприятном положении, как правило, находятся или наиболее крупные предприятия, или менее крупные, но занимающие ключевые позиции, от деятельности которых зависит функционирование многих сфер экономики. Выступление крупных или занимающих ключевые позиции предприятий с позиций диктата является иррациональным результатом задуманной как наиболее рациональной формы управления экономикой — руководства путем прямых плановых директив. Ведь эта форма управления — в интересах непосредственного руководства — требует, чтобы на самом низшем уровне управленческой иерархии находилось как можно меньшее количество производственных единиц. Это была одна из причин значительного сокращения числа предприятий в стране. В то же самое время экономика попала в зависимость от крупных предприятий, которые благодаря своим позициям способны добиваться своих собственных, узких интересов. В условиях общественно-экономического положения страны «торги» обычно происходят мирно, в форме достижения договоренности. Но если предприятия не могут добиться желаемого результата таким образом, то они находят себе союзников, прежде всего в лице отраслевого министерства, которое также заинтересовано в получении централизованных ресурсов, а также могут воспользоваться и более эффективными средствами «торгов». Вследствие этого ресурсы часто распределяются на цели и в пропорциях, которые нежелательны для народного хозяйства в целом. Одним из необходимых условий изменения этого положения является усиление самостоятельности предприятий.