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Research Institute of Labour  
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# THE SOCIAL COMPOSITION OF "SMALL ENTREPRENEURS"

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## PREFACE

Where, from which strata, do entrepreneurs, these new actors in the economy come from? A representative survey was carried out in 1988 to answer this apparently simple question, the findings of which are now published in detail.

Before considering the pattern of social standing and typical career of entrepreneurs, that is of people setting up legal and autonomous businesses, we should examine some key characteristics of the history of small business, including private business, between 1982 and 1988. This is a quite recent period, however, amidst the process of political system change including the reinstating of private business in its rights and functions, it will be worthwhile to study the environment where the pioneers decided in favour of going private.

The second set of problems briefly addressed in this Preface concerns the location of the current study within social stratification research which is one of the most developed branches of sociology in Hungary. Research going back several decades has revealed a number of widely debated issues ranging from *re-embourgeoisement* to the contemporary role of the *élite*. What might our survey add to these debates?

### I.

In 1988, in the data collection phase of this study, more than 187,000 small business organizations (each with a staff of less than 100 people) were active in Hungary, representing a total of about 470,000 full-time employees. This number covered all possible legal types of organizational structure and forms of ownership such as the small facilities of state companies and co-operatives, the then special category of state-owned small companies, subsidiary companies, small co-operatives; organizations without a legal identity such as the business work partnership (GMK - to use its Hungarian abbreviation), the civil law partnership (PJT), the industrial & service groups (ISZSZCS); the still rare deposit partnership (BT), incorporated businesses such as limited liability companies; and finally, the self-employed small manufacturers (artisans), retail shopkeepers, farmers and people leasing state-owned restaurants. The figures given for employees included every category of persons working full-time for such organizations, i.e., (private) owners, members, employees and helping family members.

Despite the impressive number of small organizations (already totaling nearly 96% of autonomous business units in the period under consideration), only 12% of the 4 million earners in the national economy was employed by them. The vast majority, 88% of Hungarian earners, worked for large, mostly for the largest,

state-owned corporations and co-operative companies.

The private sector represented a still lower share.

Number of private owned organizations and full-timers in 1988

	organizations	full-timers
Self-employed (artisans, retailers, farmers)	156.283	244.040
Partnerships (PJT, GMK, ISZSZCS, Ltd., other)	16.502	62.010
Leased business, appr.	12.000	15.000
Total:	184.785	321.050

Source: Central Statistical Office.

The table shows that most of the small organizations active in the economy were run by self-employed artisans and retail shopkeepers. In 1988, 88% of the 90 thousand full-time artisans worked alone or with family helpers; and only 1.5% had more than 3 employees. The support staff of small retailers and private farmers also came primarily from family members.

15,703 of the 16,500 companies had no separate legal identity, and about half of them had no full-time members. They were made up entirely of part-timers.

Only about 8% of registered earners were active in privately owned organizations of all kind. Within this independent entrepreneurs (self-employed and members of partnerships), totalled not quite 200 thousand people, 4.1% of all active earners (4.8 million in 1988).

Statistics for 1980 show a 3.4% employment share in the private sector, according to the normal ownership breakdown of its time. An increase in this share to 8% indicates that over the 1980s a cautious green light was given to small private business, although the annual growth rate of the private sector was below half a percent even in terms of employment. (No wonder that their business performance was almost unnoticed.)

The picture is somewhat improved when we consider that some Small Co-operatives, mainly the newly established ones, actually operated as private business. This form was classified as "socialist", and the consequent manifold benefits were rather attractive, especially at the time when the political authorities, in its reluctant revelation of the scope of the private sphere, restricted private businesses through staff

limitations and taxation. The Small Co-operative offered a chance to many people. Its rules of the game were formally accepted; however, non-distributable co-operative assets were not or only formally accumulated and even then only in nominal amounts. Thus many organizations named Small Co-operatives were virtually operating as private companies. In 1988 there were 2,847 small co-operatives, most of them new ones, with 171,000 members and employees. Based on their pattern of operation we classify them as private business organizations and their managers as entrepreneurs.

The story is similar in the case of a part of the industrial and service groups, another co-operative form. Most ISZSZCSs in co-operatives and enterprise work partnerships (VGMKs) in state owned companies were similar in terms of function: instead of doing business in the market, they worked as in-house overtime crews, saving the need of parent organization to hire additional labour. However, many others made use of the special advantages of co-operatives and organized themselves under the name "specialist group" and under the auspices of some parent co-operatives. Thousands of such specialist groups consisting of full-time members have entered the market, occasionally with substantial funds. They proved to be one of the most flexible form of business, and are therefore included in our private business summary data.

If the small co-operatives, or at least part of them, are considered private enterprises in nature, the statistical figures are improved as follows: the number of participants increases to 420 to 450 thousand people or 8-9% of active aged earners. However, this does not contribute much to the overall result: the retarded evolution of the private sector.

In the given climate it was perpetually natural for entrepreneurs to distrust, to be afraid of going independent, of giving up state or co-operative jobs and of investing money because the contrast between the declarations and the actual measures of the administration fueled suspicion and fear. Policy might change at any moment and investors might be exposed to losing everything once again.

In consequence, the simpler solution was generally preferred. Amongst the legalized forms of "small business", doing extra work or "business" as a second, overtime job has become the most popular pattern. Even in 1988, there were 178,000 VGMK members (after the 1986 peak of 268,000) and 34,000 people were engaged in ISZSZCSs as part time members. In addition to 62,000 full-time members and employees of PJTs and GMKs, a further 53,000 people worked in these forms having a second job. In the sector of small manufacturing (artisans) the growth rate of such part time jobs was higher than of full-time ones (increasing by 22 thousand and 21 thousand, respectively, between 1981 and 1988). Up till 1988 the staff (318,000) working in a second job was nearly as many as the total self-employed: full-time members, employees and helping family members (321,000).

We wanted to study those people who abandoned the world of modest but safe income of salaried employees in order to establish an independent, sometimes ambitious, business on their own. Information collected from 4000 respondent entrepreneurs is used to depict the outlines of their social origins, business traditions in their families, the role of knowledge accumulated through a career as an asset for entrepreneurial development and other typical social features descriptive of the emerging business strata.

## II.

Several issues connected to the literature of social stratification and mobility studies in Hungary will be covered in detail in a separate paper. Only a few points closely relevant to the interpretation of our results need be discussed here.

The first thing to be admitted is that rather soft categories have been used. It is apparent from the aforesaid that we have not formulated a clear definition of private sector or private business. We have a partial answer for this laxity, namely, the profound inconsistency between classification according to law and financial rules vs. the practices and business activities of the various forms.

The policy adopted in the early 1980s was basically aimed at introducing small sized organizations in the overcentralized Hungarian economy composed of excessively large organizations. However, political acceptance of private ownership as a natural and successful form of small businesses was prevented for a long time by the ideological commitment to a centrally planned economy. Although this policy, very cautiously also opened the way for private enterprise, it set many obstacles in its path through staff restrictions and taxation and, on the other hand, preferences for forms assumed to be "socialist". It was a long-lasting emphasis that the private sector must only have an auxiliary role complementing the prevailing state and co-operative sector.

At the time of preparing this study it was quite simple to eliminate several forms from the class of "small business" on the basis of their non-business-like systems and the non-entrepreneurial quality of their members. Such organizations included the subsidiaries and the state-owned small enterprises created by decentralization of large service firms. Their activities as a whole were kept in the range of state control despite the several advantages they enjoyed over the big organizations. (After 1988, by enacting the Uniform Act on Enterprising, these organizations were actually reclassified as "traditional" state owned companies.) We could not accept in this class the VGMKs and the similar co-operative groups (ISZSZCSs) as their purpose was to alleviate perceived or actual labour shortages and/or to circumvent the rigid rules of wage

level regulation, even though formal policy as well as statistical practice insisted on quoting these most popular forms of "small business" as an example of wide-spreading entrepreneurship. (For a while it was hoped these forms would decentralize and pluralize the state companies from inside.)

Nor did we have any particular problem with the traditional private sector organizations such as small manufacturing (artisans) and retailers, nor with the new private company forms: the GMKs, PJTs, the still sporadic limited liability companies and deposit partnerships. All of them were undoubtedly based on their own assets (knowledge) and entered into the market as independent actors.

As already noted, the problem was how to classify the small co-operatives and the specialist groups consisting of full-timers and performing independent market activities. We decided to take note of essential and not formal characteristics and defined them as business units.

While this definition apparently does not satisfy the notion of "small business" (or as it was then named: "new type enterprises") nor "private enterprise" in the literal meaning of the term, it is consistent with the actual market formations that have emerged in the economy.

The notion "entrepreneur" is also interpreted in the broader sense. Definition of entrepreneurs given in library glossaries and papers focus alternatively on market functions or typical characteristics of personality. We understand the obvious differences e.g. between a sole small manufacturer or retailer working at best with family assistance and a businessman acting in the modern economy and thinking in terms of market, investment, innovation.

This time, for pragmatic reasons, we have accepted a simple definition: entrepreneur means any person who has established his or her business activities independently or together with independent partners, performs it as a full-time profession and considers it the basis of his living. This pragmatic decision is acceptable so long as any empirical study is supposed to adapt to real life and use operational categories.

Although we are aware of the heterogeneity of the entrepreneurial stratum, knowing the wide varieties of working, living, and goals, for the purposes of this study we have inserted an equals sign between independent economic activity and business enterprise. The equation used here will only be tenable for analysis with specific focus. Later on, when society will be mapped out more accurately, the key groups of entrepreneurs will require closer scrutiny. In this study we have only had the opportunity to try to distinguish the various groups of participants, including the managers of partnerships showing several classic characteristics of entrepreneurs (such as GMK representatives and small co-operative chairmen).

It is already clear from this study that the career preferences of new entrepreneurs is strongly defined by family background. Firstly, by business traditions in the family which, in Hungary, means mainly the farming experience of grandparents or parents as well as small manufacturing and retailer backgrounds. It is now popular in Hungarian discussions to anticipate *re-embourgeoisement* and a revival of old traditions. Disregarding the publicity-seeking rather than purely academic nature of these arguments, it is the continuity of small production traditions that is most strongly supported by our data. It is the traditions of small production that are alive in the source strata, that is, the lowest first step of *embourgeoisement*. This seems to have been the most populous stratum of the Hungarian society. Present-day entrepreneurs as a social stratum cannot be considered to be, directly or indirectly, the successors of a higher evolved step of *bourgeoise* class blending several additional characteristics (such as wealth, erudition, schooling, social relations, etc.) nor of the *bourgeoise* class controlling key posts in the economy.

The other way in which family origin can be seen as determinant relates to intellectual assets, to the transfer of knowledge. The term "*élite*" is another ambiguous one. (Till now as far as contemporary Hungarian society is concerned, the term has been used mainly for the key officials of the administration, the former party apparatus and top company management.) It is nevertheless clear that many new entrepreneurs come from "leader" families. This is known to be a very broad category in the Hungarian statistical practice; anybody appointed to some position of control in any of the numerous hierarchical organizations of the economy and at any level of the ladder was marked as "leader" (and "professional"). It is undeniable that for 20-30 years now a certain schooling has been a precondition for key assignments. This has resulted in a kind of knowledge-asset accumulation in families. From the point of view of sociology, "*élite*" and "leaders" are far from identical categories (at most, provided that certain features are shown, the upper brackets of "leaders" may belong to the "*élite*"). At this time we were not in the position to distinguish and identify these specific categories.

While it seems to be safe to state on the basis of our experiences that the entrepreneurs we studied till 1988 did not come from the *élite* of the "socialist" economy and political power, it is obvious that many people were supported by accumulated family knowledge assets in becoming entrepreneurs.

In this context our data reveal another important phenomenon, namely, that a new career path opened up for graduate and highly qualified people, even if this path was narrow and heavily obstructed till 1988, and that this group was quicker than any other strata to capitalize on this opportunity.

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