# Investing in Human Capital:

# Hungary's Transition to a Market Economy

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## EXECUTIVE SUMMARY

In the wake of the political and economic upheaval in Eastern Europe, Hungary — in many ways a pacesetter — is at a critical juncture of both challenge and opportunity as it shifts by choice from a command to a market economy. To help facilitate this transition, the U.S. government is committed to providing assistance to support Hungarian economic self-sufficiency as the nation joins the global economy, adopts democratic values, and continues to free its domestic markets.

More than its East European neighbors, Hungary has flirted with cycles of economic liberalization throughout the postwar period, especially since 1982. The result has been a slowly emerging "socialist market economy" that lacked, until recently, any consistent or comprehensive base in policy or practice. Only with the fundamental political transition of 1989 has come an unambiguous commitment to a market economy. Still, it remains unclear what specific shape this market economy will take or how the transformation of the system will take place. Nonetheless, Hungarians are aware that there are important areas of knowledge and kinds of information to which they must gain access if they are to be successful in a competitive world economy.

Hungary reaches this pivotal time in its history with several relative advantages: a running start through its 20 years of gradual reform, a strategic location bridging Eastern and Western Europe, a well-educated workforce, and an impressive awareness that the demands of economic restructuring will require a cadre of highly skilled managers able to respond to the new challenges and opportunities of the 1990s. The major and widely recognized need for the development of managers who can lead the coming economic transformation represents an important opportunity for U.S. assistance to Hungary.

The principal goal of U.S. assistance to Eastern Europe is to support economic reforms that, in turn, spur market-oriented policies and growth led by a vigorous private sector. The basic framework for U.S. assistance to Hungary (and Poland) is the Support for East European Democracy (SEED) Act, which has two broad objectives: (1) fostering free market-oriented economies and private enterprise, and (2) supporting political pluralism through assistance to democratic institutions.

### CONCLUSIONS

The management training needs of Hungarian enterprises fall into three categories: entrepreneurs and small businesses; the financial sector; and medium and large enterprises in the agribusiness, industrial, and commercial sectors.

Entrepreneurs and small business owners need information support and assistance with contacts, networking, and representation as a group in legislative and other policy arenas. Most do not have the time, money, or interest in formal or classical management effectiveness training. If they are open to training at all, it is for practical, immediately useful skills. Their primary interests are how to find capital, partners, and markets for their products and how to keep up with the changing financial and legal regulatory environment.

The financial sector requires management training and technical assistance to cope with the rapidly changing environment in financial and capital markets. For banks and other actors in the sector, short-term training courses in practical and management skills are needed. This can be supplemented by on-the-job training through internships with correspondent banks or affiliated financial institutions. For government regulators such as the State Property Agency (which is responsible for asset valuation in preparation for privatization), the Bank Supervisory Board (which is responsible for supervising the banking system), and the State Securities Supervision Board (the Hungarian equivalent of the Securities Exchange Commission), short-term technical assistance will be useful to help the regulators play a constructive role in the development and performance of financial and capital markets in support of private enterprise.

Managers in medium and larger enterprises in agribusiness and the industrial and commercial sectors need management training in the priority fields of financial management, business planning, international marketing, human resource management, and production control. As Hungary's economy shifts away from a command economy, there is a need to reorient the top managers to the workings and demands of the market economy and equip young managers with needed skills to operate in this economy.

An analysis of the needs of these target categories is presented in Section Three of the document.

## RECOMMENDATIONS

In view of the limited resources available for training assistance, a catalytic approach to assistance should be a priority. Opportunities should be grasped to provide support that will have a multiplier effect, either by leveraging other funding or by building specific capacities in institutions that are well placed to make a key contribution to management training and management performance in Hungary.

Support to institutions should be defined in terms of time and expectations so that each assistance package has clearly defined outputs that are mutually understood. Creation of new organizations or indefinite core support to institutions should be avoided. Instead, specific outcomes should be identified that can be achieved working through existing structures within bounded time horizons. Scholarship, technical assistance, or other support should be tailored to these limited, but clearly delineated, objectives. Because of the critical juncture in which Hungary finds itself, emphasis should be given, though not exclusively, to activities with the potential for immediate impact. Within this context, however, stress should be placed on beneficial impacts that can be sustained over a longer period in the absence of continued foreign assistance.

In view of the strong and varied training infrastructure in Hungary for both formal and executive training, foreign assistance should focus on strengthening the teaching quality of these institutions. Such an approach will be more efficient and cost effective than attempting to select and directly train some small segment of Hungarian managers.

Support to public sector agencies should focus on government units that have a direct impact on private sector performance such as regulatory agencies or local government units with economic development and business support functions. The performance of these agencies will have a major impact on Hungary's success in transforming its economy.

Support to entrepreneurs and small businesses should be emphasized but, for this group, training should be interpreted to include access to information and networking services. At their level of operation, these business men and women have less immediate need for traditional management training content.

The enterprise focus of assistance strategies should be on Hungarian firms as distinct from foreign joint ventures. Most joint ventures of any size have a built-in advantage in arranging internal training and executive exchange. While the United States may wish to encourage joint ventures, there will still be many viable Hungarian firms that will not have this advantage but will need access to high-quality training and related services.

U.S. assistance should continue to be coordinated with that of other donors, especially the Group of 24. In addition, where feasible, assistance packages should be linked through add-ons to ongoing U.S. assistance projects or programs to minimize start-up time and bureaucratic red tape.

Recommendations follow for the three target group categories, entrepreneurs, the finance sector, and medium and large enterprises. These recommendations are presented in greater detail in Section Five of this report.

**Entrepreneurs and Small Businesses**

1. **Technical Assistance**

- Provide institutional support to the Small Enterprise Economic Development organization, a small, Hungarian business association actively seeking such funding.

- Establish a library and information-access systems specifically designed to assist entrepreneurs.

- Translate and adapt training and information materials for entrepreneurs and small businesses.

- Provide support to selected training institutions for programs tailored to entrepreneurs.

2. **Commodities**

- Provide a one-time input of office equipment for the Small Enterprise Economic Development association.

- Provide books, reference material, and computer equipment to support library and information systems mentioned in the technical assistance category.

**Finance and Banking Sector**

1. **Scholarship Assistance**

- Establish internships for banking and activities related to the capital market.

2. **Technical Assistance**

- Support the development and operation of financial and capital markets. Technical assistance should be provided to the Ministry of Finance in the areas of bank supervision, privatization, finance and accounting regulation, and capital markets. Technical assistance to these regulatory bodies will facilitate their efforts to develop policies and establish mechanisms for controlling and monitoring the implementation and impact of the regulations.

**Medium and Large Enterprises**

1. **Scholarship Assistance**

- Establish two types of scholarship programs. One program to provide training for mid-level and senior instructors who are teaching business courses and another program to develop instructors in fields not taught in Hungary.

- Arrange internships for the instructors participating in the scholarship programs, which will augment the theoretical educational experience of the instructors with practical experience in a market economy.

2. **Technical Assistance**

- Provide technical assistance to train Hungarian managers and instructors until the scholarship instructors can return to Hungary and begin courses.

- Review and evaluate the curriculum of the major training institutions to determine the types of courses and commodities best suited for each institution.

- Provide technical assistance to cooperatives in the areas of cooperative management and marketing.

- Provide technical assistance to regional governments for economic development and business support functions.

- Establish a business library open to all Hungarians.

## 3. Commodities

- Provide training and hardware and software support to selected training institutions and the business library.

## 4. English Language Training

- Provide language training in business English to support opportunities for overseas training as well as to support managers with international marketing and negotiating roles.

# SECTION ONE

# INTRODUCTION

## U.S. ASSISTANCE TO HUNGARY

In the wake of the turbulent political and economic upheaval in Eastern Europe, Hungary — in many ways a pacesetter — is at a critical juncture of both challenge and opportunity as it shifts by choice from a command to a market economy.

To help facilitate this transition, the U.S. Government intends to provide flexible assistance to support Hungarian economic self-sufficiency as the nation adopts democratic values, frees its domestic markets, and joins the global economy.

U.S. policy is to coordinate assistance with other donors, especially the European Economic Community. In Washington, U.S. bilateral initiatives will emphasize a multiagency approach incorporating trade and credit assistance, as well as legislative authority for labor, environmental, and training programs. Early activities in FY 1990 have featured technical training, educational and cultural exchanges, scholarships, labor reforms, and trade initiatives.

The principal goal of U.S. assistance to Eastern Europe is to support economic reforms that will spur the adoption of market-oriented policies and encourage the growth of a vigorous private sector. The basic framework for U.S. assistance to Hungary and Poland is the Support for East European Democracy (SEED) Act, which has two broad objectives:

1. To foster free market economies and private enterprise; and

2. To support political pluralism through assistance to democratic institutions.

Economic assistance to Hungary will focus on mobilizing private sector investment through enterprise funds, guarantees, trade, and financial and capital market development; developing human resources for a free market economy through training in management, banking, economics, and privatization; and intervening discretely in the environment and energy fields.

The centerpiece of the SEED Act for Hungary is the Hungarian-American Enterprise Fund. This fund will distribute $60 million to support small business development, facilitate joint ventures with U.S. businesses, and promote policies and procedures conducive to private sector development. These funds will be provided through loans, grants, equity investments, support for feasibility studies, training, and technical assistance. A bi-national Board of Directors and a contracted management team from the U.S. investment banking sector will operate the fund.

The SEED Act also will support activities in Hungary implemented by the Department of Labor, the U.S. Information Agency, the Overseas Private Investment Corporation, the Trade and Development Program, the Environmental Protection Agency, the Department of the Treasury, the Department of Commerce, the Peace Corps, and the Agency for International Development (A.I.D.).

A.I.D.'s role, as defined by SEED, is "to develop and implement a program for extending basic agribusiness, commercial, entrepreneurial, financial, scientific, and technical skills to the people of Hungary to enable them to better meet their needs and develop a market economy." To thoughtfully plan and target its assistance program for maximum impact, A.I.D. commissioned a study of the management training needs in Hungary.

## PURPOSE OF THE STUDY

This report presents the findings and recommendations of the management training needs study conducted in Hungary in April and May 1990. The objectives of the assignment were:

- To examine human resource constraints on the development and sustained growth of a market economy;

- To assess in-country training resources in relationship to their capacity to address identified constraints; and

- To recommend a multiyear strategy to address training needs resulting from the development of a free market economic system.

The study was conducted in three phases. The first phase involved a review of relevant documents addressing the following issues: the Hungarian economic transformation, characteristics of the Hungarian private sector, and descriptions of those key subsectors and institutions in the public and private sectors that play critical roles in the development of a market economy.

In the second phase, a two-person team spent five weeks in Hungary interviewing enterprise managers and entrepreneurs, as well as leaders of training institutions, to acquire the basic information for the study. The team also discussed relevant issues with government officials and private sector support organizations. Analysis of the findings, formulation of the recommendations, and preparation of this report comprised phase three.

A more detailed description of the report methodology is provided in Annex I of this report.

# SECTION TWO

# BACKGROUND: ECONOMIC AND POLITICAL LIBERALIZATION IN HUNGARY

To a greater degree than its East European neighbors, Hungary flirted with cycles of economic liberalization throughout the postwar period. The resulting pockets of private vigor produced a slowly emerging "socialist market economy," which nonetheless lacked any consistent or comprehensive base in policy or practice. The fundamental political transition of 1989 brought the first unambiguous commitment to a market economy. Still, the future shape of this market economy and the road to a systemic transformation remain unclear. Hungarians are acutely aware that they must gain access to important areas of knowledge and information if they are to succeed in the competitive world economy.

## PAST LIBERALIZATION IN HUNGARY

The 1968 reforms that initiated the decentralization of economic decision making to individual enterprises was the starting point of significant change in the Hungarian planned economy. This early economic loosening brought a measure of prosperity in the 1970s, but gradually foundered in inefficiency, inflation, and debt.

The pace of reform quickened in the 1980s with the removal of several barriers to market entry and exit. Government actions included the divestiture of large supply monopolies (1980 - onward); the creation of a legal basis for some forms of small business (1982); a privatization program (1985 - onward), which has witnessed a rise in the total number of enterprises to over 10,000; the gradual removal of the state monopoly on foreign trade (1985 - onward), leading to an increase in the number of businesses with the right to trade in convertible currency from 150 to over 2,000; legislation on bankruptcy (1986), providing a legal framework for the liquidation of loss-making enterprises;[1] the new company law (1988), which legalized private enterprises with up to 500 employees; the law on foreign investment in Hungary (1989), leading to a surge in joint ventures;[2] and the relaxation of import controls (1989).

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[1] But no major bankruptcies have yet occurred due to a continuing government bias toward rehabilitation of failing enterprises and commercial bank reluctance to initiate the liquidation process.

[2] Great variation in the number of such ventures reported exists (recent press and other accounts peg the number between 600 and 2,000 through 1989), which reflects definitional and data-gathering problems. In any case, Hungary has the highest number of joint ventures in Eastern Europe. Hungary's hospitable investment laws allow 100-percent foreign ownership, profit repatriation in hard currency, and corporate tax abatements in some sectors. The *Wall Street Journal* (April 5, 1990) projects over 2,000 new joint ventures in 1990.

Parallel reform measures were designed to create the institutional framework for a market economy. Examples of these measures include the transition to a two-tier banking system, which eliminated the central bank monopoly (1987); a comprehensive tax reform package (1988-89), including introduction of a general income tax and value added tax; a program of subsidy cutbacks (launched in 1989); the abandonment of the government monopoly over foreign exchange allocation (1990); and the establishment of a stock market (1990).

In the course of these reforms, significant management authority in production, investment, organization, marketing, and personnel was delegated to enterprises, with the exception of public utilities and large, strategically important industrial enterprises. Opportunities to use this new authority were limited, however, because of the lack of knowledge and experience of managers, the lack of professionals experienced in providing services to the private sector, and the absence of an enabling environment and especially of a well-functioning public infrastructure.

Management behavior changes slowly; persuading people to make decisions after years of authoritarianism has proven difficult. "When a system based on the issuing of orders suddenly barks, 'Make up your own minds!,' it is not surprising that the first reaction is stunned apathy."[3] In the 1980s, enterprise managers thus tended to ignore directives to maximize earnings, clinging to the belief that greater rewards went to those who instead maximized total employment and wages.

Meanwhile, the accelerating process of political change led to the declaration of a multiparty republic on October 23, 1989, the anniversary of the 1956 uprising. Parliamentary elections were held in March and April 1990, the first free elections in Hungary since 1947. The non-Communist government that emerged from this electoral process is committed to the development of a market economy, albeit at a cautious pace.[4]

All these changes have chipped away at 40 years of structural and institutional inertia. The reforms provide a framework for establishing the property right to returns from investment and provide the basis for the development of competitive financial markets.

## CONSTRAINTS TO ACCELERATED LIBERALIZATION

Unfortunately, changes aimed at liberalization, deregulation, and decentralization also have wrought potentially destabilizing inflation, balance-of-payments deficits, the highest per capita foreign debt in Europe ($20 billion, nearly $2,000 per capita), rising unemployment, and potential social impoverishment of broad sections of the population. The major planned decline in exports to the Soviet Union will result in at least two years of decline in industrial production, or an expected total of 10

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[3] Breedlove, *The Economist*, August 12, 1989.

[4] The election was won decisively by the Hungarian Democratic Forum (HDF), which formed a conservative coalition with the Smallholders Party and the Christian Democrats. The HDF leader, Jozsef Antall, is the new prime minister.

percent.[5] Concerns about unemployment and a lower standard of living if restructuring is pursued vigorously will engender a reluctance to push forward too rapidly. Addressing these problems in an atmosphere of rising expectations for a better life represents a major challenge for the fledgling Hungarian democracy.

The new government plans to increase the private share of the Hungarian economy from the current 15 percent to 60 percent in five years. This is an ambitious target. Only three of Hungary's 100 largest corporations now are private. Many of the larger state-owned enterprises (SOEs) are white elephants — unattractive targets for foreign investment because they are unlikely ever to achieve profitable operation as privatized firms. Moreover, because of shortcomings in existing Hungarian accounting procedures, it is difficult to determine the value and profits of a company. Even determining legal ownership of SOEs presents a major quandary. The new private banks are saddled with financially troubled customers that tie up lendable resources. These banks also lack loan loss reserves to force clients into bankruptcy and would encounter stiff political resistance if they tried to do so. Banks also suffer from a small capital base and the lack of trained managers, accounting and auditing procedures, and investment evaluation experience.

Neglected infrastructure, especially telecommunications, and the lack of automation make it difficult to conduct business according to Western standards. Reliance on centralized research and development institutes and a tendency to focus more on fundamental than applied research have slowed both product development and the assimilation of foreign technologies. Excessive bureaucratic red tape and an onerous tax burden limit resources available for expansion. Capital is in short supply and credit is costly and available only on a short-term basis.

Hungary reaches this pivotal time in its history with several relative advantages: a running start given its 20 years of gradual reform; a strategic location bridging Eastern and Western Europe; a well-educated workforce; and an impressive awareness that the demands of economic restructuring will require a cadre of highly skilled managers able to respond to the new challenges and opportunities of the 1990s. The significant and widely recognized need for the development of managers who can lead the coming economic transformation represents an important opportunity for U.S. assistance to Hungary.

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[5] A 40-percent decline in exports to the USSR is planned for 1990. In 1991, all trade with the Soviet Union will be conducted in hard currency, further dampening the demand for Hungarian goods in the USSR. The decline in production caused by drops in this market will be partially offset by growth in exports to the West and expected rapid growth in production from new private enterprises in Hungary (EIU Country Report No. 2, 1990).

# SECTION THREE

# THE PRIVATE SECTOR ENVIRONMENT

This section assesses management training needs of Hungarian enterprise, with particular reference to the private sector. A description of this sector, including constraints to its development, will be followed by a review of the financial and capital markets sector. The final part of the section focuses on selected target groups for management training assistance and their particular training needs.

## PRIVATE SECTOR DESCRIPTION

The beginning of a legal private sector dates to 1982 when associations were permitted a maximum of 15 partners and Ft150,000 (US$ 2,500) in capital. Since then, the private sector has been the most dynamic segment of the economy, outperforming the state sector in job creation, output growth, and productivity. Today it is estimated that the legal private sector, excluding agriculture, contributes about 10 percent of Hungary's GNP. If the informal sector and agricultural production are added in, then the private sector share could be as high as 30 to 35 percent of GNP.

While estimates of the number of private sector firms and cooperatives are difficult to gather with accuracy, there are probably 2,500 cooperatives in industry and services and 50,000 small firms, most of which are retailers. The private sector, including unlimited companies and cooperatives, employs over 600,000 people. Agriculture is the largest private sector employer. The private sector accounts for almost 95 percent of housing construction, 15-20 percent of retail sales, and some 60 percent of consumer services such as restaurants, fashion boutiques, and beauty salons. Of the top 100 corporations in Hungary, however, only three are private.

The Hungarian government now realizes that the private sector is a key element for economic recovery and has lifted many legal restrictions on private enterprise. The first step was the introduction of a Law on Corporate Association, which went into effect in January 1989. This law expanded the opportunities for private investors by allowing Hungarians to own shares and form limited liability and joint-venture companies. It increased the maximum number of workers that private companies could employ. The allowing of wholly foreign-owned ventures liberalized foreign investment.

The Transformation Act, approved in May 1989, was a major step in facilitating direct and indirect Western investment in state-held enterprises and cooperatives. This legislation allowed for the conversion of state enterprises to joint stock companies and the right to sell shares, including majority shareholding, to Hungarian citizens and companies as well as to foreign investors.

The impact of these laws resulted in a rapid increase in the number of private enterprises. Smaller and more flexible companies are being formed, either from scratch or from the breakup of large state companies. Over 1,000 new limited liability companies were formed in 1989, up from only 173 in 1988. The number of joint stockholding companies created in 1989 more than tripled the 1988 number to 125 firms. Another consequence has been the growth in the number of people employed by firms; there has been a 15-percent growth in the number of firms that employ between 51 and 300 workers, while the number of companies employing more than 300 fell by 4.5 percent.

These laws along with incentives and a more liberal political climate have encouraged an increasing number of foreign joint ventures. A report, issued by the Ministry of Trade in February 1990, indicated that there were 870 foreign joint ventures registered in Hungary at the end of 1989, of which 642 were formed in 1989. The foreign capital involved in the ventures was estimated to be $420-450 million, with most of the investment in the trade, tourism, and service sectors. Austria and West Germany head the list of foreign investment in Hungary both in terms of number of companies and foreign capital. The United States is listed fourth in number of companies with 57 and third in foreign capital with $28.8 million.

## CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

Although the government has lifted many legal restrictions on private enterprise and recognizes that the private sector is a fundamental ingredient for economic recovery, privatization efforts and entrepreneurs face many obstacles. The most significant of these, according to Hungarian entrepreneurs and business associations, are:

- **Lack of capital and credit constraints:** Capital formation is seen as a major need, both in terms of access to foreign capital and domestic access. Private businesses have much more limited access to commercial loans and hard currency for imports of Western capital goods than state companies and lack the subsidy safety net provided to state enterprises and large cooperatives. Often, even when credit is available, interest rates are prohibitively high.

- **Lack of market-oriented business techniques:** Accounting standards and market-oriented business techniques are mostly unknown in Hungary. In addition, Hungary does not have an adequate number of accountants, lawyers, and bankers to support the private sector.

- **Valuation of assets:** There is no mechanism for valuing enterprise assets to create shares. The lack of a cost accounting system makes it difficult to determine the value of a business. Inventory is arbitrarily fixed without calculating sales, profits, or production costs. Doubtful receivables stay on the balance sheet forever.

- **Property rights:** It is by no means clear who actually has the legal right to sell shares in most Hungarians firms. Under the socialist regime, the government confiscated but never took legal possession of most farms, firms, and factories. Workers councils, ministries, and various Hungarian banks claim the right to sell off assets to foreigners. There is a similar problem with the real estate leased by Hungarian companies: no one is quite certain whether it is owned by the government, the Party, or the companies.

- **Overregulation:** The private sector must contend with excessive bureaucratic red tape and an onerous tax burden that limits resources available for expansion. There is a 50-percent tax on profits and, in 1989, a value added tax was imposed.

- **Attitudes:** There is a general resentment of private entrepreneurs in Hungary as a result of 40 years of socialist rhetoric. Positive reinforcement is needed for future entrepreneurs. In addition, worker attitudes toward quality of work and a corporate work ethic need to improve.

- **Inadequate infrastructure:** There is insufficient availability of office space, telephones, and computers.

- **Uncertain economic climate:** Continual changes in legal and financial regulations create an environment in which it is difficult to operate or plan for the future. In addition, with the new elections concluded, top level personnel changes at major banks, state enterprises, and government ministries will lead to a period of uncertainty while the replacements settle in.

- **Legal system:** The commercial legal system in Hungary lacks a reliable way of enforcing contracts and resolving disputes.

- **Lack of managerial and entrepreneurial skills:** Having operated under a command market economy for over 40 years, the private sector lacks management and organizational skills.

Despite these obstacles, there is an entrepreneurial drive in Hungary that propels the private sector and cannot be deterred.

## FINANCIAL AND CAPITAL MARKETS SECTOR

Hungary was one of the first East European countries to introduce financial reforms in its economy. Decentralization of the banking system and the first steps toward reestablishing the capital market began in the late 1980s. The banking structure is now a two-tier system, similar to Western economies. The National Bank of Hungary is the central bank of Hungary and as such focuses on macroeconomic policy issues as well as regulates and supervises the financial sector, which consists of banks and insurance companies.

Reform of the banking industry began in 1987 when the National Bank of Hungary shed its commercial lending operations and divided them among three newly created commercial banks (Budapest Bank, Commercial and Creditbank, and Hungarian Credit Bank). These institutions took over the commercial banking functions once in the hands of the National Bank, and operate from its offices and branches around the country. They are joint-stock companies, but the majority of the stock is state owned.

Deregulation of the financial services industry continued in 1988 with the breakup of the monopoly on retail banking by the National Savings Bank and savings cooperatives. Commercial banks were permitted to enter this market. Similarly, all savings banks were allowed to engage in commercial banking activities.

Foreign exchange operations are gradually being decentralized. In 1988, commercial banks were allowed to provide foreign-exchange-related services for households. As the next step, in 1989, the commercial banks were permitted to act as agents for companies in foreign exchange purchases from the National Bank of Hungary. A new foreign exchange law was approved in January 1990 and it is expected that all commercial banks will have authorization for foreign exchange operations by the end of the year.

In addition to the deregulation of the financial services industry, commercial banks have been busy expanding into areas such as leasing, real estate, insurance, and security transactions.

Hungary is open to foreign banks establishing joint-venture or wholly owned operations in the banking sector. Currently there are six foreign joint-venture banks in Hungary, all of which offer commercial banking services. The foreign joint venture banks are Central-European International Bank, Central-European Creditbank, Citibank, UNICBANK, Credit Corporation for the Development of Foreign Trade, and Creditanstalt Budapest AG. Two additional foreign joint-venture banks are scheduled to commence operations later this year: Kulturbank and First American Bank in Hungary.

The banking system is organized on three levels: the National Bank of Hungary, as the central bank; the commercial banks; and specialized financial institutions. A brief description of the banking system follows.

## Commercial Banks

There are 19 Hungarian financial institutions that provide commercial banking services. Although the National Savings Bank and the newly formed Bank of Savings Cooperatives dominate the collection of deposits and lending to households, commercial banks may also offer such services. The savings banks provide services similar to the commercial banks, but the savings banks provide retail services for individuals while the commercial banks provide services for the commercial and industrial sectors.

**Agricultural Innovation Bank, Ltd. (AGROBANK).** Founded in 1983, this institution provides loans and banking services primarily to the agricultural and food processing sector. The bank was reestablished as a joint-stock company in 1987 and in 1988 received a commercial banking license. The ownership is spread over more than 450 shareholders including state-owned companies, the banking sector, and the food-based industries.

**Bank for Hungarian Savings Cooperatives.** Founded in 1989 as a joint-stock company with a full commercial banking license, the activities of this institution include collection of savings deposits, commercial banking, retail banking, stock exchange operations, venture capital, guarantees, factoring, leasing, and foreign exchange operations. The bank consists of 260 cooperatives, the first of which was formed in 1957. The bank has a network of 1,800 branches.

**Budapest Bank, Ltd.** Founded in 1986 as an offshoot of the National Bank, Budapest Bank was formed by merging the operations of the Budapest Credit Bank, the State Development Bank, and certain lending departments of the National Bank of Hungary. The third largest commercial bank in Hungary, Budapest Bank mainly services Hungary's energy sector and one-third of the state farms and farming cooperatives. In addition to traditional commercial banking services, the bank issues bonds and is involved with leasing. There are 600 shareholders with the Hungarian government holding 50 percent.

**Central-European International Bank, Ltd. (CIB).** Founded in 1979, this was the first joint-venture bank in Hungary. It is a dollar-based offshore commercial bank joint venture between Banca Commerciale Italiana (11 percent), Bayerische Vereinsbank AG (11 percent), Creditanstalt-Bankverein (11 percent), the Long-Term Credit Bank of Japan, Ltd. (11 percent), Société Générale (11 percent), the Taiyo Kobe Bank, Ltd. (11 percent), and the National Bank of Hungary (34 percent).

**Central-European Creditbank, Ltd. (KHB).** Founded in 1988 as a domestic banking subsidiary of Central-European International Bank, KHB is a joint-venture commercial bank between Banca Commerciale Italiana (1.2 percent), Bayerische Vereinsbank (1.2 percent), Creditanstalt-Bankverein (1.2 percent), the Long-Term Credit Bank of Japan, Ltd. (1.2 percent), Société Générale (1.2 percent), the Taiyo Kobe Bank, Ltd. (1.2 percent), and Central-European International Bank (92.8 percent). The bank was created for forint business transactions, providing mainly short-term working capital facilities.

**Citibank Budapest.** Founded in 1985, this is a commercial bank joint venture between the Citibank N.A. New York (80 percent) and Central Bank of Exchange and Credit Ltd. (affiliate of the National Bank of Hungary, with 20 percent).

**Commercial and Creditbank, Ltd. (K&H Bank).** Founded in 1987 from the agricultural division of the National Bank of Hungary, this is the second largest commercial bank in Hungary. The state is the main shareholder, although agricultural, industrial, and trading enterprises are among the 400 shareholders. The bank has close to 50 offices spread throughout the country.

**Credit Corporation for the Development of Foreign Trade, Ltd. (INTERBANK).** Founded in 1980 as a development fund, this institution was reestablished in 1988 as a joint-stock company. It became a fully licensed commercial bank in 1989. This is a commercial bank joint venture between Instituto Bancario San Paolo Di Torino (40 percent) and Hungarians (60 percent), engaged primarily in wholesale banking activities.

**Creditanstalt Budapest AG.** Founded in 1990, this is a joint-venture commercial bank between Creditanstalt-Bankverein of Austria (75 percent) and Budapest Bank (25 percent).

**Duna Investments and Commercial Bank Co., Ltd. (DUNABANK).** Founded in 1987 as a specialized financial subsidiary of Hungarian Credit Bank. In 1990 the institution was transformed into a commercial bank, owned by Hungarian Credit Bank (50 percent) and state-owned companies (50 percent). Dunabank concentrates on small-scale and middle-size companies. The bank has two branches outside of Budapest.

**General Bank for Venture Financing, Ltd.** Founded in 1985 as a commercial bank.

**General Banking & Trust Company, Ltd.** Founded in 1922, it became a commercial bank in 1987. The Bank has five offices in Hungary and two offices overseas in Switzerland and the Soviet Union, respectively.

**Hungarian Credit Bank, Ltd. (MHB)** Founded in 1987 from the industrial division of the National Bank of Hungary, this is the largest commercial bank in Hungary in terms of both share capital and total assets. Ownership is spread among over 900 shareholders with the largest being the state. The bank has close to 60 offices throughout the country and plays a leading role in the financing of heavy and light industry, construction, transport, and telecommunications. In addition to traditional commercial banking activities, the bank has a number of affiliates engaged in real estate trading, leasing, and advisory services.

**Hungarian Foreign Trade Bank, Ltd.** Founded in 1950, the bank is owned 77.2 percent by the state and 22.8 percent by state-owned enterprises. This was the first commercial bank to be fully licensed for foreign exchange activities. The bank has four branches and is engaged primarily in the financing of Hungarian exports and imports.

**Innovation Bank for Construction Industry, Ltd.** Founded in 1983 by the Ministry of Construction and Urban Planning and the State Development Bank as a venture capital fund, this institution was reestablished in 1986 as a joint-stock company. It became a fully licensed commercial bank in 1989. Specializing in the building industry, the bank provides leasing and factoring in addition to commercial banking activities.

**National Banking Institution of the Agricultural Cooperatives Co., Ltd. (MEZOBANK).** Founded in 1986 as a commercial bank for agricultural cooperatives.

**National Savings Bank.** Founded in 1949, this is the oldest savings institution in Hungary. In 1989 the bank changed from a savings bank to become a commercial bank. The bank has 600 branch and central offices and is still the major channel for savings depositors, with 8 million deposit and current accounts.

**Post Bank and Savings Bank Corporation (POSTBANK).** Founded in 1988, this bank is affiliated with the postal service of Hungary. The bank has an extensive nation-wide branch system of 3,200 offices and was the first to combine commercial banking and savings banking activities.

**UNICBANK, Ltd.** Founded in 1986 as a commercial bank joint venture between Deutsche Genossenschaftsbank (West German bank with 15 percent), Genossenschaftliche Zentralbank AG (Austrian bank with 15 percent), International Finance Corporation (15 percent), Central Bank of Exchange and Credit Ltd. (20 percent), National Savings Bank (11 percent), Association of Agricultural Cooperatives (6 percent), Association of Industrial Cooperatives (6 percent), Association of Service Cooperatives (6 percent), and Association of Private Artisans (6 percent). Unicbank's activities are aimed primarily at small and middle-sized companies, cooperatives, and private entrepreneurs.

## Specialized Financial Institutions

The specialized financial institutions, often created from the funds of cooperatives, provide funds for start-up and investment projects too small to interest the large banks. These small banks may establish deposit and credit links with economic entities, participate in ventures, and provide banking services. In addition, these institutions now offer other services such as leasing, factoring, and securities transactions. Unlike the commercial bank, the specialized financial institutions may not keep the accounts of their clients. Some of the specialized financial institutions hope to get commercial banking status.

**Bank for Technical Development, Ltd. (INVESTBANK).** Founded in 1983 as a deposit association, this specialized financial institution, which finances technical development, became a joint-stock company in 1987.

**Central Corporation of Banking Companies.** Founded in 1916, this is a state property-holding institution. It performs international property transactions and handles the liquidation of unprofitable companies.

**Consumer Cooperatives Bank, Ltd. (KONZUMBANK).** Founded in 1986 as a deposit association, this specialized financial institution for financing cooperatives became a joint-stock company in 1987. The bank has a seven-branch network.

**First American Bank in Hungary.** Founded in 1990, this is the first wholly owned foreign bank in Hungary. It is scheduled to commence operations in the fall of 1990. The owners of the bank are First American Financial of Hungary, a U.S. company representing a group of U.S. investors, and Carmol Mortgage and Investment Bank of Israel. The new bank will generate mortgage and construction loans and provide financing for small ventures but will not be allowed to have savings deposits.

**General Finance Institution for Innovation, Ltd. (INNOFINANCE).** Founded in 1980 as a venture capital fund, this specialized financial institution, which became a joint-stock company in 1985, provides venture capital, leasing, and advisory services.

**Industrial Cooperative Development Bank, Ltd. (IPARBANK).** Founded in 1984 as a deposit association, this specialized financial institution, which became a joint-stock company in 1987, assists industrial cooperatives.

**Industrial Development Bank, Ltd.** Founded in 1984 as a deposit association, this specialized financial institution promotes development projects and funds company restructuring. It was established as a joint-stock company in 1988. The bank has two branch offices outside of Budapest.

**Investrade Corporation.** Founded in 1989 as a joint venture between Hungarian Credit Bank (50 percent) and the Daewoo Group of Korea (50 percent), this specialized financial institution is involved in a number of activities including investment in finance, industry, agriculture, and service sectors; security transactions; foreign exchange transactions; advisory services; leasing; and factoring.

**Kulturbank.** Founded in 1990, this specialized bank, which will offer financial services to cultural institutions, is a joint-venture between Generalinvest of Austria (50 percent) and the Hungarian Ministry of Education (50 percent).

**Merkantil, Ltd.** Founded in 1988, this specialized financial institution is a subsidiary of Commercial and Creditbank. The main activities include leasing, factoring, and securities transactions.

**Real Estate Bank, Ltd. (INGATLAN BANK).** Founded in 1990 as a specialized financial institution providing mortgages.

**Realbank, Ltd.** Founded in 1990 as a wholly owned subsidiary of Budapest Bank. This is a specialized bank that offers mortgage banking in addition to specialized services such as leasing and factoring.

**State Development Institution.** Founded in 1987, it took over the operations of the former State Bank for Investments. A development financial institution, the bank's tasks are to develop Hungary's infrastructure, assist in the restructuring of major industrial firms, and provide credit for other investment projects.

## Constraints Facing the Banking System

The major problem the large Hungarian commercial banks face is that a large portion of their loan portfolio consists of bad loans. The Hungarian government, in 1987, created three commercial banks and allocated loans of the National Bank of Hungary totalling Ft 344 billion (about US$ 5.7 billion) to the commercial banks. This assignment was made at book value, regardless of the actual quality of the loans and contained substantial amounts of nonperforming loans of state-owned companies. This saddled the management of the big three commercial banks with the need to make substantial provisions for those debts.

To complicate matters, most of the inherited doubtful loans are debts of state-owned companies that have become major shareholders of these same banks. Since their establishment, the big three commercial banks have preferred to pay high dividends or increase their capital instead of making provisions for the doubtful and nonperforming loan portfolio.

Another constraint facing the banking sector is the lack of banking expertise in Hungary. Prior to the deregulation of the banking sector, the job of bankers mainly consisted of allocating funds among companies and handling foreign currency transfers. Deregulation brought a need for knowledge about credit risk management, corporate and retail banking products, foreign exchange transactions, and security transactions.

There is a significant shortage throughout the banking sector of the proper computer hardware. In most banks, a wide variety of different computers can be found, the majority of which operate only as personal work stations and few are interconnected as part of a local area network.

Another problem facing the commercial banks is the lack of a large branch network. The commercial bank with the largest number of branches is the Postbank, established in 1989, which uses its network of 3,200 post offices to distribute products. This compares to the big three commercial banks, all of which are committed to entering the retail market, with 40 to 60 offices.

In addition to the problem of creating branch networks and establishing systems that allow integration with the head office, Hungarian bankers are uncertain of the legislative and economic framework to be developed. The Ministry of Finance is preparing a new banking law that is aimed at classifying banks and providing controls on lending policies and capital adequacy and liquidity ratios. Concurrently, the Ministry of Finance is also developing a new auditing law for companies as well as for banks.

## The Stock Market

A commodity and stock exchange operated in Budapest from 1867 (under the Austrian monarchy) to 1948 before being closed down under the socialist economic system. In December 1987, the first steps were taken toward reestablishing the Hungarian Stock Exchange by 25 Hungarian banks and financial institutions, which signed an agreement for the coordination and promotion of securities trading. A Securities Trading Committee was formed to provide basic technical and information services.

In 1983, Hungarian companies and municipalities started issuing bonds for sale to companies and individuals. Although 1987 was a record year for the issuing and trading of bonds because of the banking deregulation, activity decreased significantly in 1988 because of inflation and changes in the regulations (earnings on newly issued bonds were no longer tax free). Inflation altered the structure of savings in favor of short-term investments. In January 1988, new instruments were introduced for the first time — treasury bills (three, six, or nine month) and corporate certificates of deposit. These instruments were well received because of their short-term nature.

Beginning in January 1988, stock exchange meetings were held once a week. An Exchange Council was created in July 1988 to manage and supervise securities trading activity. Since October 1989, the stock exchange meetings have been increased to three times a week between the approximately 50 registered dealers. Also in 1988, the Hungarian Exchange took steps towards internationalization by signing cooperation agreements with the London and Milan Stock Exchanges and becoming a correspondent member of the International Federation of Stock Exchanges. Securities of several Hungarian firms have been issued on the Austrian stock exchange.

The Stock Exchange Act was approved in January 1990. This act provides for the disclosure of information about stock issuers, regulates traders, creates the State Securities Supervision Board (the Hungarian equivalent of the Securities and Exchange Commission), and establishes the conditions for the founding of the stock exchange and its operation. The law, which became effective on March 1, 1990, was developed with assistance from the World Bank and is modeled after the U.S. and British systems.

The Budapest Stock Exchange officially opened on June 21, 1990, with an initial listing of approximately 40 companies. The stock exchange is a self-governing and self-managing institution, independent of the government.

Approximately 200 companies have shares listed on the Budapest Stock Exchange. Three types of companies have issued stock: banks, privatized state corporations, and joint-venture operations. Most of the shares are owned by the banks and only a few companies have tradeable shares. Private individuals have been allowed to buy stock since January 1988 (although a punitive tax law until January 1990 precluded individual holdings).

The stock market is very limited in trading volume due to a lack of supply of equities, a paucity of investors, a soft secondary market, and few intermediary institutions. Over-the-counter transactions comprise about 95 percent of the trading volume.

There are four brokerage firms in Hungary. The four companies are Co-Nexus Ltd. (established in 1988 by Hungarian financial institutions); CA-BB securities Agency Ltd. (established in 1989 between Creditanstalt Bankverein of Austria with 50 percent and Budapest Bank Ltd. with 50 percent — the first brokerage joint venture); First American-Hungarian Securities Trade Ltd. (commenced operation in 1989 — a 50/50 joint venture between the World Company, an American company, and Hungarians); and Florenus Securities and Real Estate trading Plc (commenced operation in 1990 using Mezobank's branch network for its activities). The slack volume of turnover and the narrow circle of investors forces these brokerage companies to participate in other activities such as capital import and credit mediation.

In the structure of the new stock exchange, there will be two types of brokerage firms: companies that execute the trades of their clients and do not trade for their own account, and securities companies that are permitted to trade for their own account in addition to completing the orders of their clients. Hungary is open to brokerage firms wholly owned by foreign companies or subsidiaries of foreign companies incorporated in Hungary.

### Financial Market Constraints

A study in the fall of 1988 by the securities trading committee cited a number of obstacles hindering the full development of a capital market. These included the lack of pluralized property rights in much of the economy, a highly discriminatory tax and subsidy system, and the absence of institutional investors. It also noted the need for a legal framework (such as a law setting a balance between corporate disclosure and secrecy) and for services like brokers, rating agencies, analysts, professional auditors, and electronic data-processing specialists.

Hungary's capital markets have had trouble attracting private investors mainly because dividends are not high enough to compete with rising inflation and interest rates offered on bank deposits. Double-digit inflation and lack of confidence in the government's management of the economy are also encouraging consumer spending at the expense of personal saving and investment.

Other constraints to the formation of an effective Hungarian capital market are lack of quality securities, lack of market information about the issuers, and a general lack of trust by private investors. Central to the creation and operation of the Stock Exchange is the establishment of institutions capable of dealing with corporate asset valuation and auditing.

## SELECTED TARGET GROUPS

In our assessment of management training needs in Hungary, we contacted 29 companies and business associations and seven Hungarian government ministries and agencies. A broad cross section of companies were approached in the agribusiness, financial, industrial and commercial sectors. The types of companies visited included private entrepreneurs in small and medium-sized businesses, cooperatives, large state-owned companies, and foreign joint ventures. From the standpoint of clustering management training needs, these companies fell into three categories: entrepreneurs and small businesses; the financial sector; and medium and large enterprises in the agribusiness, industrial, and commercial sectors.

### Entrepreneurs and Small Businesses

Most private enterprise (by number of firms) in Hungary falls into this category. Not surprisingly, small businesses tend to be owned and operated by someone with an entrepreneurial spirit, and in most cases employ fewer than 30 workers. They operate in the service sector, in businesses such as retail shops, restaurants, automobile repair, and low-capital-intensive activities such as computer software.

Entrepreneurs report that life experience provided the best training for business. No training courses were seen to be as valuable as the lesson of experience, especially if supported by joint-venture interchanges.

While a future need for training was cited in such areas as finance and accounting, marketing, business planning, management policy, and how to negotiate contracts, the entrepreneurs and small businesses were more concerned with day-to-day operation of their businesses and basic information. Due to lack of time and money, there is little interest in formal education courses. Entrepreneurs consistently stressed that management support must be of a practical nature with immediate application and should address specific problems rather than generic issues. On-site training was indicated as a possible approach, with evening courses as an alternative to minimize the time away from running the business.

Aside from time and resource constraints, entrepreneurs feel that information and contacts are more pressing concerns than management training. These needs included:

- How to establish contacts with foreigners and access foreign markets, technology, and capital;
- How to negotiate joint-venture or licensing contracts;
- Information on Hungarian legal and financial rules and regulations and how these affect their business;
- Information on foreign markets (customs regulations, prices, tariffs, transportation costs, dispute settlement, how to obtain a license);
- Information on the Hungarian market (export and import procedures, transportation costs, prices);
- How to access Western databanks for contacts and market information; and
- Information on where and how to obtain credit and venture capital.

In summary, these entrepreneurs and small business owners primarily need information support, assistance with contacts, networking, and representation as a group in legislative and other policy arenas. Most do not have the time, money, or interest in formal or classical management effectiveness training. To the extent they are open to training at all, it is for very practical, immediately useful skills. Their primary interests are learning how to find capital, partners, and markets for their products and how to keep up with the changing financial and legal regulatory environment.

### The Finance Sector

This category includes the newly decentralized banking system and the fledgling capital market, both of which were described earlier in this section.

Most managers from the Hungarian banking system have a degree from one of the colleges or universities. The management staff is hired mainly from the College of Finance and Accounting, the College of Foreign Trade, and the Budapest University of Economics (graduates from the departments of economics and law). The Hungarian education system does not offer courses in banking; consequently the banks train their staff by combining on-the-job training with a variety of methods including in-bank courses, courses with outside training institutions, and internships.

The management training needs reported by Hungarian banks reflect the rapidly changing environment due to the deregulation of the banking system combined with bank expansion into new products. Training needs include both practical training and management skills. Practical training needs are financial accounting, credit analysis, risk management, valuation of real estate, plant and equipment, foreign exchange transactions, brokerage training for capital market transactions, private deposit management, branch banking, and computer training to develop management information systems. In addition to banking skills, there is demand for management skills such as management organization in developing a branch banking network and personnel training for branch managers. Language training was also emphasized as necessary for foreign exchange departments, correspondent banking relationships, and overseas training.

Several Hungarian banks have internal education departments that design in-bank training for their staff using lecturers drawn from within the bank and experts from outside the bank in special fields such as credit analysis, valuation, and computerization. Frequently the outside lecturers come from the Budapest University of Economics. These in-bank courses are introductory courses on specific topics and are geared toward junior to middle management. Some banks develop their own training materials and also provide internal language training (German and English).

Another frequently used method of training is short internships of two to four weeks with foreign banking institutions in Europe (in Austria and Germany). This training is often arranged with correspondent banks. While this training option is available to the large commercial banks, the smaller commercial banks and specialized banks do not have the same opportunities, because they have not developed or had the opportunity to generate correspondent banking relationships.

Senior and advanced middle management training is conducted outside of the banks due to the limited number of participants. The International Training Center for Bankers (ITCB) is the main training institution used by banks to train all levels of management. According to the Hungarian banks, the ITCB is the only institution in Hungary providing practical training. Using lecturers from Budapest University as well as businessmen who are expert in particular fields, the ITCB offers short, affordable courses in most of the areas of training required by the banks. Occasionally some of the banks send a manager to the International Management Center which, while good in management organization, is viewed as expensive and not as practical as the ITCB. Periodically, the banks have used short courses at OVK, a management training institution affiliated with the Budapest University, to provide general management training.

An exception to the training schemes designed by the Hungarian banks is Citibank, which hires its new employees exclusively from the College of Foreign Trade due to their ability to speak and write English. Citibank trains its staff on a continual basis through their European offices, combining theory and practical application.

Aside from Citibank, a few Hungarian banks have devoted attention to career development programs. There is an education committee in Budapest Bank that formulates the training policies of the bank and designs in-house training courses. They have one-year and medium-term plans for staff development. The personnel department of Commerce and Creditbank establishes the qualifications for each management position. Training is designed to prepare individuals to assume management positions.

The fledgling capital market sector requires practical training in the operation and regulation of a stock exchange. Similar to banks, training needs include financial accounting and real estate and corporate asset valuation. Brokerage houses require training in retail services and in back office operations.

Companies and individuals dealing in securities should be required to be licensed since these are the primary link between the investing public and the capital market. In addition, a training program should be established as part of a licensing process for securities dealers, both supervisory and administrative personnel, and securities salesmen.

The financial sector is unique in its need for immediate training and technical assistance to cope with the rapidly changing environment in financial and capital markets. For banks and other actors in the sector, short-term training courses in practical and management skills are needed. This can be supplemented by on-the-job training through internships with correspondent banks or affiliated financial institutions. For government regulators such as the State Property Agency (which is responsible for asset valuation in preparation for privatization), the Bank Supervisory Board (which is responsible for supervising the banking system), and the State Securities Supervision Board (the Hungarian equivalent of the Securities Exchange Commission), short-term technical assistance will be useful to help them play a constructive role in the development and performance of financial and capital markets in support of private enterprise.

## Medium and Large Enterprises

This category covers firms in the agribusiness and industrial and commercial sectors and includes SOEs, large cooperatives, and foreign joint venture companies.

### Agriculture

Agriculture is a major segment of the Hungarian economy contributing 20 percent of the gross domestic product. The agriculture sector is relatively current in technology and production techniques while processing and marketing are weak areas due to state control. Marketing information is controlled by the SOEs that manage agriculture exports. The focus on management training for this sector was on food processing companies.

There are approximately 200 SOE food processing companies and a small but growing number of privately owned food companies. The agriculture processing and marketing areas have 200,000 employees, of which 10-15,000 managers need training, particularly in marketing, production, and financial management. A major problem is lack of a foreign language for those who might be trained abroad or who could learn from foreign experts who come to Hungary. Less than 2 percent of the managers speak English.

In the next three to five years, it is anticipated that 30-40 percent of the land will be cultivated privately, with the rest in various forms of cooperative ventures. As agricultural SOEs relinquish their monopoly on marketing and farm inputs, private farmers are expected to form cooperatives to perform these operations. They will need assistance in marketing and modern management.

While the basic education in agriculture is good at Hungarian agricultural universities, the study course is designed for specialists (such as horticulture and animal husbandry) and not food processing. The agricultural universities are unlikely to serve management training needs.

### Industry and Commerce

Industry in Hungary is overcentralized. The top 50 to 100 companies produce 70 to 80 percent of the country's output. This is the sector targeted for privatization, because 90 percent of the companies are SOEs.

One of the constraints to management training is the attitude in the workplace that has developed under the command economy. The emphasis has been on producing quantities of goods with little attention to quality, leading to a lack of a corporate work ethic. Managers report that the most effective training occurs when a management group organizes training on a specific subject like planning that can then be taken back to the workplace. When managers from the same level but from different departments train together, there is enthusiasm. Unfortunately, the results seem to wear off when they return to the workplace because the workers around them have not been exposed to the training and, consequently, maintenance of new attitudes is difficult. This also applies to training an individual from a department through courses or internships.

Another problem with management training is that Hungarian companies that send managers for training and internships often lose them to foreign companies and to opportunities as entrepreneurs. Current legislation does not permit binding the trainee to the sending company so companies hesitate to send managers for training.

Foreign joint ventures have a built-in advantage in being able to provide management training internships abroad to employees as well as temporary visiting managers for on-the-job training in Hungary. Hungarian companies need a clearinghouse to arrange similar opportunities abroad for their employees.

## Training needs for Medium and Large Enterprises

The major areas of management training need for this category are as follows:

- **Strategic and business planning:** Under the command economy, government authorities imposed planning. Since planning was not part of the company responsibility, there is little understanding of the difference between strategic planning and operational plans. There is little consideration of strategic options of contingency planning. Companies do not know how to develop a business plan and access capital. Skills are lacking in the ability to structure the organization and fill the position.

- **Financial management:** Many companies have no financial planning process or capital budgeting procedures. There is no capacity to assess investment options for cash surpluses.

- **Accounting (as a management tool):** There is no concept of cost accounting or of using accounting information for decision-making purposes.

- **Marketing:** Most companies operate in a closed domestic market in which they enjoy dominant positions. Exports, the result of government agreements, did not require marketing and were channeled through Hungarian foreign trade organizations, or went directly to foreign licensors.

- **Information sources:** Few enterprises have adequate information on the business, legal, institutional, and economic environment outside of Hungary. The need includes how to develop Western partners and markets.

- **Production management:** Skills are needed in managing the process of innovation from idea generation through research, development, engineering, production, and sales. This grouping also includes quality assurance and inventory control.

- **Human resource management:** Major SOEs have no career planning or unified management training plan for different categories of management. This problem is an outgrowth of the time when the road to senior management depended on politics. Also in this grouping is the need for incentives, negotiating, conflict management, labor administration, and performance appraisal.

- **Language training:** Language training is needed to support opportunities for overseas training and to support managers with international marketing and financial roles.

For over 40 years, the Hungarian economy has been oriented toward a centrally planned system of output targets, large production units, artificial prices, and widespread subsidies. As Hungary's economy shifts away from a command economy there is an urgent need to reorient the top managers to the workings and demands of the market economy and equip young managers with needed skills to operate in the market economy.

# SECTION FOUR

# OVERVIEW OF TRAINING INSTITUTIONS

A limited number of Hungarian educational institutions offer significant management training programs. Though the situation is fluid, 17 institutions and two business associations were identified that have the potential to play an important role in future management training for private sector managers.[1] The 17 institutions are classified into four categories:

- Institutions of higher education (7)
- Specialized Western-oriented training institutions (2)
- Established Hungarian management training institutions (7)
- A new, "distance learning" institution.

Each of these training organizations reaches or has the potential to reach an important set of existing or future managers. In addition, two important organizations that provide information and other support to entrepreneurs and small businesses were recently established. Because these services address a critical need, we have included these two institutions in this survey, despite the fact that they do not focus on training per se.

This group provides all of the formal degree, diploma, and postgraduate management training in Hungary, as well as a substantial majority of the short-course or executive management training. All 17 training institutions will not be direct recipients of the U.S. Government assistance program for management training in Hungary. But an understanding of the broader management training context will assure effective targeting of U.S. assistance.

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[1] This count does not include (1) small companies offering short seminars or management-related courses, most of which are consulting firms using "training" as a marketing mechanism. Some are joint-ventures; others are operated by moonlighting university faculty. Over 20 of these firms have appeared in the last six months. More will appear; some will soon disappear. The test of their effectiveness will be private sector response to their offerings. They are unlikely to have a major impact on Hungary's management training needs and are not an appropriate target for foreign assistance; (2) technical universities in the agriculture sector that have management departments but focus on resource management, not practical business management skills; or (3) public administration training agencies of which the most important are the College of Public Administration and the Institute of Public Administration, the latter connected to the Hungarian Ministry of the Interior. While effective public sector management of certain support functions is important to the private sector, these are functions requiring knowledge of new private sector realities and functions. Training in these skills is not the purpose of the public administration institutions.

Evaluation of the quality of training offered at these institutions, especially the contribution of training to actual improvement in the administrative performance of managers, is difficult. For instance, attitudinal change on the part of the trainee and a supportive environment in the workplace affect how long and well management instruction is retained. But, as a group, the 19 institutions and associations we reviewed have a sound sense of mission and are aware of what is needed to support the emerging needs of the Hungarian market economy. Their administrators recognize the new interest in learning among managers who previously considered education irrelevant to advancement. These institutions also possess an appropriate degree of realism and humility about their limitations in certain key subjects, especially corporate finance, human resource development, and production management. These subjects are among the most important for effective management of the emerging market economy.

## INSTITUTES OF HIGHER EDUCATION

Hungary offers two postsecondary higher education tracks. The first is a three-year program, available at colleges[2] or universities.[3] The second is a five-year program at a university. The colleges and universities located in Budapest specialize in such disciplines as economics, engineering, medicine, or fine arts. Universities located outside of Budapest tend to provide a broader range of disciplines.

Most institutions offer postgraduate second-degree training on a variety of time schedules. For example, a working engineer can attend the Budapest University of Economics and obtain a second diploma in economics. The Ministry of Education and Culture supports these institutions financially; tuition is free, whether the student is full time, part time, or postgraduate. Entrance is based on qualifying examinations and is competitive.[4] Those institutions that offer short courses in management charge a fee; in some cases these classes are deliberately offered to produce revenues.

Four universities (two in Budapest) and four colleges (all in Budapest) offer management programs. Following are descriptions:

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[2] Commonly called a "high school" after the German Hochschule, this program is roughly equivalent to a specialized four-year college or university program in the United States, given the more rigorous secondary education that precedes the three-year program.

[3] At a university, all students take two years of general training; each mandatory curriculum is skewed toward the specialty of the institution. The students then have two options, based on a qualifying exam. The first is to take a single additional specialized year (either at the university or by optional transfer to a college) leading to a three-year college diploma. The second is to remain at the university for three additional years of specialization leading to a five-year university diploma. The latter is roughly equivalent to a U.S. Master's degree.

[4] Less than 10 percent of Hungarians possess a college or university diploma.

**The Budapest University of Economics**

Established in 1948 and formerly known as the Karl Marx University, the Budapest University of Economics was the site of George Bush's July 1989 speech offering trade and economic assistance to Hungary. It is the primary training ground for senior management in Hungarian industry, either through its regular university programs or through postgraduate training for persons with other university degrees (usually engineering).

The university offers three degree programs: economics, business, and social science. The business track offers a new, well-designed curriculum, similar to a typical U.S. business major and MBA track. Course areas include finance and monetary theory, international economics, economic policy and planning, organization management, the history of economic thought, world economics, and language.[5] This track is available for both college (three-year) and university (five-year) programs. Approximately 700 students per year enter this program on a part-time or full-time basis.

An additional 400 students enroll annually in the university's two-year, part-time postgraduate business training program, which culminates in a recognized certificate. The university also runs short courses for working managers of one to three weeks duration. In some cases, these courses are packaged into programs of up to 10 months in length. Some of these courses are offered in the provincial cities of Szeged, Debrecen, and Gyor.

A prestige institution, this university draws on well-trained faculty. Through links with universities in Western Europe and the United States, opportunities for student and faculty exchanges exist. For example, 50 students are enrolled in management courses in Holland; some 40 faculty recently completed training in the West under a Soros foundation grant.

This major university will be an important agent in preparing future generations of Hungarian managers and will play a potentially significant role in retraining existing managers. Possessing a strong business program, the Budapest University of Economics is attempting to upgrade its faculty and facility resources despite severe resource constraints. The historic role played by the institution and its faculty in the old economic system constitutes the primary limit to its quality of training. Thus far, the task of retooling is greater than available resources.

**The Technical University of Budapest**

As its name implies, this university focuses on technical training, especially engineering. It contributes to management development, however, in several ways. First, it is developing with the Budapest University of Economics an integrated five-year program of combined technical and management training. Given the tradition of managers with technical backgrounds, this program is potentially significant. Second, the university's English language teaching track reaches 1,500 students and is the largest English language degree program in continental Europe. Though only a portion of these students are enrolled in management courses, their language skills make them probable candidates for future

[5] No human resources development courses are offered. In fact, none of the universities or colleges offer courses in this area, although the need is recognized. They lack faculty qualified to teach this subject.

management roles. Third, the university is exploring campus exchanges with U.S. universities, whereby a U.S. institution would establish a business campus in Hungary in exchange for the establishment of a Hungarian and Eastern European studies program in the United States.

All of these factors exhibit more potential than current significance. Though not now a major resource for training in management, the Technical University does train a significant number of people who become managers.

**Janus Pannonius University (Pecs)**

This university, located in southwestern Hungary in the nation's fourth largest city, offers the largest business training program outside of Budapest. The economics and business program, one of three disciplines provided by the university, is modeled after the program at the Budapest University of Economics.

The university matriculates 120 full-time students in business. Fifty additional students participate in a part-time degree program. In addition to its formal programs, Janus Pannonius offers special management certificate programs geared to lawyers and engineers. It also provides short courses addressing practical business issues. Some of these courses are customized and offered to individual firms.

The university's regional location limits its ability to recruit faculty[6] and maintain academic excellence. The Soros Foundation has provided assistance enabling young professors to visit Western universities: seven have travelled to the United States or Western Europe in the last three years and six more are slated to study in Western Europe for three months in 1990. But foundation grants tend to be individually awarded and may not serve overall faculty development.

Alert to its educational mission, Janus Pannonius is aware of the potential of outreach programs to companies in its region. It suffers, however, from its location, both in terms of faculty hiring and in terms of regular contact with visiting Western academics, who usually stay only in Budapest.

**University of Heavy Industry (Miskolc)**

Located in the northeast, an area traditionally dominated by mining and heavy industry, this university only recently established a faculty of economics (which grew out of a previous faculty of industrial economics). The first entering class; in the fall of 1988, numbered 100 students out of the university's total of 1,200. This program, also modeled after the Budapest University of Economics, offers a three-year, college-level degree program; a five-year university program may be offered in the future. Postgraduate management training geared to engineers is offered in a three-year, one-week-per-month program. No short courses are offered, but some are in the planning stage.

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[6] A major reason is the lack of opportunity for moonlighting. Many professors at the Budapest University of Economics teach part time at one or more separate training organizations. This opportunity is less available in Pecs. Academic salaries by themselves are low in comparison to private sector earning opportunities.

Faculty for the business and economic program are drawn from the university's industrial economics department and supplemented by new hires from the Budapest University of Economics or industry. The university also has some links to other universities in Eastern Europe and Canada, but none involve the management training program.

Although this university is new to the field of management training, it is a major Hungarian institution and its capacity to train general managers with an industrial engineering base gives it significant potential and importance.

**The College of Finance and Accountancy**

This specialized vocational institution in Budapest teaches 3,000 regular three-year program students. Half are day students. The remainder are enrolled in evening or correspondence courses. In addition, the school reaches over 6,000 postgraduate students per year. Approximately 10 percent of these students work in the private sector. Course content covers finance and banking, accounting, and organizational issues, as well as language, social science, and mathematics. A curriculum restructuring using international materials is planned. Faculty are being retrained in areas of international business, but the initial focus is on change in Hungary.

The college focuses on practical education keyed to medium-level management. Most graduates peak at supervisory levels; 8 percent wind up in top management. Most business employees are men; although 80 percent of the students are women, they are often allowed to prepare only for senior clerical roles.

Due to the nature of its subject matter, the College of Finance and Accounting has been called upon to engage in special retraining efforts mandated by the government. For example, the college claims to have retrained 40,000 people in seminars and short courses in the wake of a 1977 tax law change. The college expects to play a similar role when Hungary completes new accounting standards.

The college offers many courses outside of Budapest, maintaining a databank of lecturers for this purpose. For example, at the time of the tax law retraining, a group of lecturers was trained by those government officials who had developed the tax law changes. These lecturers then taught a one-day course for top managers, a three-day course for middle managers, and a one-week course for operational supervisors dealing with tax issues. Courses were taught in all 19 Hungarian counties, usually at university locations with appropriate facilities. Costs were split between the college and companies providing the trainees. For ongoing programs, branch training is offered in three locations across the country.

The college maintains links with several Western European institutions, primarily for student exchanges. Some foreign lecturers are brought into Budapest. An effort is under way to develop equivalency arrangements with foreign universities for joint degree recognition.

Demand for graduates is large; most have several job offers. Because of the number of students it reaches, this college plays an important role in orienting entry-level and middle managers to changes in accounting, tax, banking, and other procedures accompanying changes in the economy. Yet its current capacity to prepare managers for the new economy is limited.

**The College of Foreign Trade**

This college has been in existence for 25 years. Its mission is to train students for roles in foreign trade. Because foreign trade was the province of a few state-owned trading companies, the college primarily provided staff for those enterprises.

The college has 1,750 students: 900 are full time, 500 are in evening programs, and 350 are in postgraduate programs designed for those educated in other fields. Some short courses, three to five days in length, are taught on such practical topics as trade accounting, bartering, forwarding, and export marketing.

The College of Foreign Trade teaches 11 foreign languages. Of all the institutions of higher education in Hungary, it is by consensus the most effective in providing English language training.[7] A new department offers a degree in translation in anticipation of high demand for these services from international businesses moving into Hungary.

Most graduates of the college move into entry-level positions in foreign trade, banking, or insurance. Many augment the three-year program with additional postgraduate courses at the Budapest University of Economics or at the College of Foreign Trade itself.

This college is considering expansion to a four-year program to allow more specialization in the final year, including a mix of study with a semester-long internship, preferably out of the country. Other plans include the use of more foreign lecturers and expanded student exchange with institutions in Western Europe and North America. The college is seeking foreign assistance to fund both internships and faculty and student exchanges.

**The College of Commerce and Catering**

This college trains employees for the hotel and catering fields and also serves the retail trade and commercial sectors. It emphasizes practical vocational-oriented training. All students in the catering and tourism track spend one semester working in a hotel or at a government tourist office.

Because of the importance of language for the tourism industry, the College of Commerce and Catering requires all students to pass examinations in two languages. However, the language training is not as intensive as that offered by the College of Foreign Trade. Most graduates reach middle management positions.

The college has 1,800 students: 800 full time, 400 part time, and 600 in extension programs outside of Budapest. In addition, 100 postgraduate students are enrolled in tourism and business courses leading to a special diploma. Designed for people in other careers, this program has flexible hours. For example, teachers shift to higher paying opportunities in the tourism sector through this training. Other

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[7] For example, Citibank, which could draw the cream of the crop of Hungarian graduates from any institution, hires virtually all of its new staff from the College of Foreign Trade because of their language training and grounding in relevant practical skills. Citibank is well structured to provide serious internal banking training, using its international network of locations and training programs.

short courses are offered, in some cases in programs designed for specific companies. In one instance, a series of catering courses was designed for employees of the Hungarian state airline. Some of these courses are offered at company sites. Faculty are supplemented by lecturers from other institutions or industry.

The college contributes to the fairly well-developed tourism industry in Hungary. By contrast, the commerce sector is less well developed. The college is in a strategic position to help foster management in this sector, but will need to strengthen its teaching capacity and links to Western corporations to accomplish this development.

## SPECIALIZED WESTERN-ORIENTED TRAINING INSTITUTIONS

Recently, two significant training institutions were established in Budapest as joint ventures between Western interests and Hungarian institutions. Both have benefitted from foreign expertise and funding. Each also has a core of permanent faculty. These professors lend credibility, continuity, and commitment to these institutions.[8] Hungary has responded strongly to their training offerings.

### The International Management Center (IMC)

The IMC is the first Western-style business management school in an Eastern Bloc country. It began as a joint venture between the Italian and Hungarian Chambers of Commerce, the San Paolo Bank (Italy), the Hungarian Credit Bank, and Szamalk, a Hungarian state-owned consulting firm.[9] Additional funding was provided by the Soros Foundation and Canada's Reichmann family. Through a link with the Joseph M. Katz Graduate School of Business at the University of Pittsburgh, the IMC receives assistance in faculty selection, guest lecturers, and curriculum and course materials development. Pittsburgh also cooperates with the IMC by accepting certain credits toward an MBA degree at the Katz School.

A Board consisting of 40 chief executive officers, university presidents, political leaders, and experts in management education governs the IMC. It is managed by a Hungarian managing director and an American academic dean and employs 10 regular faculty, five permanent and five visiting. Team teaching is widely used.

The IMC is designed for students with the potential to become general managers and operate in the new economic environment. A minimum of two years of prior business experience is required. The Center offers a three-tiered curriculum consisting of a Young Managers Program, workshops and seminars for middle management, and senior management forums. Key study areas are management behavior, international economics, finance, accounting, marketing, and management science. American materials are used and the courses are taught in English.

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[8] In a study of Hungarian management training, Arthur D. Little argued that part-time faculty tend to have little pedagogical experience, do not adequately prepare courses, and present material that is not up to date (Arthur D. Little, 1987).

[9] Recently the IMC was reorganized as a foundation to ease access to foreign donor funds.

The Young Managers Program is the IMC centerpiece. In the first class in the fall of 1989, 29 students enrolled. Now finishing a ten-month, full-time program at the IMC, they will enter internships of various lengths in European, Canadian, or American businesses. Many will then travel to Pittsburgh or elsewhere in the United States to complete their MBA training.[10] Only the Katz School at Pittsburgh will accept IMC credits toward a degree, which reduces the academic period to six months. The IMC may seek international recognition as a degree-granting institution. It is discussing offering an executive MBA program in cooperation with Indiana University.

IMC short-course executive management training reached over 800 trainees in the center's first year. Occasionally, courses are run outside of Budapest using a network of former participants. Usually they are held on company premises and tailored to the needs of the client company. The IMC intends to emphasize longer-term training contracts with large companies. This emphasis may reduce the total number of trainees but will increase the intensity of the training offerings. This strategy also reflects the importance of training work groups rather than individuals in order to increase the impact of the training.

Some IMC training is linked to consulting initiatives, whereby the center engages in organizational diagnosis and training design of a company as a prelude to the training itself. This type of linkage also will be emphasized.

The IMC offers high-quality training. Due to its mix of well-qualified local and guest instructors, it is able to maintain an updated course content. The emphasis on team teaching provides a good blend of outside expertise and local adaptation. But the center is an elite institution and the cost of its programs (the Young Managers Program has a fee of $10,000) places it out of reach of all but the largest companies, such as joint ventures. In this sense, the IMC fills an important but small niche. The impact of its teaching excellence will depend on the extent to which its capacities can be used to strengthen the faculty of other training institutions and its success in extending outreach to smaller companies.

**The International Training Center for Bankers (ITCB)**

The ITCB opened in February 1989 as a joint venture between the French Centre International de Formation de la Profession Bancaire (CIFPB) and 28 Hungarian banks. It offers a wide-ranging program of over 50 professional banking and finance courses specifically designed for employees of banks and other financial institutions.[11] Though originally capitalized with foreign assistance, the ITCB now operates on a self-financing basis, charging approximately $100 per person per day for its courses. In its first 18 months, this Center trained over 1,000 Hungarian bank employees, many from branch banks as well as Budapest.

The ITCB has two longer-term programs. A Comprehensive Banking Course leads to a French-Hungarian degree in banking and broadly covers bank operations, functions, and the banking environment. This course initially requires 10 weeks of study; the ITCB is designing a second-year phase. The

[10] Of the initial class of 28, eight have scholarships at the University of Pittsburgh. Others will attend on a reduced-fee basis. Four have Tulane University scholarships.

[11] The ITCB intends to design and market programs for corporate financial managers at a later date. To date, over 200 trainees from non-banks have taken short courses at the center.

second long-term program leads to the International Banking Diploma of the Chartered Institute of Banking. It covers banking law, accounting, international trade finance, and international finance and investment. This program requires 60 weeks of part-time study over two years, including a combination of distance learning and consultation with faculty. The materials for this program are British, with no translation or adaptation.

The core of ITCB activity, however, is the broad series of short courses it offers. These courses vary in length from one or two days to a 30-day class in three separate segments. Banking courses emphasize basic lending, monetary policy, liquidity management, small venture financing, retail banking, mortgage lending, and banking information systems. Specialized training courses address corporate finance (portfolio analysis, debt management, valuation, and so forth), money and capital markets, and foreign exchange management. Additional programs cover the language of banking, courses for foreign participants,[12] and customized programs for particular banks. The center recently contracted with one large Hungarian bank to provide a series of courses to 1,200 of its employees.

These programs are oriented toward practical issues. The rationale for this design is that the performance of the banking sector is especially amenable to technical upgrading through training. The ITCB hopes to serve as a clearinghouse for banking information and training. It is seeking cooperative arrangements with Austrian, German, U.S., and other countries' institutions to augment its French and British links. Later in 1990, the center will cosponsor a housing finance conference with the Chicago-based International Union of Housing Finance Institutions.

The ITCB has a full-time staff of 14. Half of these employees have some teaching responsibilities. Over 100 temporary lecturers are drawn from banks and other financial firms in Hungary. Courses are taught primarily in Hungarian. They are keyed to the needs of Hungarian banks because most joint-venture banks mandate internal training though their own programs and facilities.

An excellent initiative, the ITCB is fulfilling a major management training need. It has established excellent links with the banking community and is widely known and used by the Hungarian banks. Through its contacts with shareholding banks and client banks, the center is aware of the concerns of the banking sector and its perceived training needs.

## ESTABLISHED HUNGARIAN MANAGEMENT TRAINING INSTITUTIONS

Several established institutions offer management training courses and programs outside of the framework of formal education. These institutions provide a mix of short-term or executive management training, in-company or on-the-job training (OJT), distance learning, and information seminars and workshops. There are three types:

[12] The first such program, a training package for Estonian and Lithuanian bankers, will begin in May 1990.

- Former government ministry training centers, now relatively independent and expected to survive without subsidy;[13]

- State-owned consulting firms with important training and consulting capabilities; some have joint-venture arrangements with Western consulting firms; and

- Training centers operating under the umbrella of a business association such as the Hungarian Chamber of Commerce.

Not included in these categories are the numerous small private companies that have emerged and offer various types of short-term training. As noted earlier, these Hungarian and joint-venture operations are not well established and use training primarily as a marketing gateway for consulting activities. In time, some of these firms may emerge as important training resources, but a series of shake-outs must occur before it can be said with confidence that any of these operations will survive the test of the market.[14] A.I.D. should not subsidize these institutions, with the exception of carefully targeted assistance for faculty development and training equipment.

The more established organizations described below also must pass the market test. In the past, several have benefitted from a common practice among large Hungarian state enterprises to send large numbers of staff to "training" programs. The value of this training was diminished, however, because it was viewed as a fringe benefit. Since little connection between knowledge and career path existed, few incentives to take training seriously developed.

By contrast, private companies and state enterprises today operate in an environment that emphasizes the bottom line and judges the value of investment in training more prudently. Therefore, the number of funded trainees is likely to drop, competition for students will grow, and only those training institutions perceived by the market as offering worthwhile programs will survive. This is a classic free market dynamic.

The cost of training in these institutions is approximately $50 per day per trainee — cheaper than the IMC and ITCB but more expensive than most university programs.

**BKE-VI (OVK)**

Established as OVK (Orszages Vzetokepco Kozpent) with assistance from the International Labor Organization (ILO) in 1975, this training institution operated as a state-owned entity under the Ministry

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[13] Most ministries had such centers, which offered management training keyed to sectors relevant to the ministry's mandate. Only some have survived as independent entities and are included in this inventory. Others are burdened by their ideological past and former Communist Party links and are not expected to become serious training resources.

[14] Of this group, MagAm, an American-Hungarian joint venture run by an American of Hungarian birth, is considered the best. MagAm takes training seriously and runs a number of short workshops on management and marketing topics. Others with some name recognition — Economix, Ergonorg, and Sinorg — are run by moonlighting university faculty.

of Education until 1989, when it was folded into the Budapest University of Economics. Subsequently it was renamed the Economic Development Institute of the Budapest University of Economics (BKE-VI).

In its new form, BKE-VI is intended to be a self-supporting, autonomous unit. The university will provide policy guidance and share some training facilities. The university faculty will provide most BKE-VI lecturers. Some will be drawn from other educational institutions and from the business community.

BKE-VI has four training thrusts:

- management methods
- entrepreneurship
- decision analysis
- organizational development.[15]

It trains 2,000 students per year in short courses offered in Hungarian and English; courses in German will be added next year.[16] Longer-term packages, some extending through three semesters, also have been developed. BKE-VI plans to develop formal long programs leading to certification

Similar to many of its sister training institutions, this Hungarian educational facility is considerably interested in negotiating certificate or diploma equivalency with recognized Western standards. A variety of certificates can be earned by the non-formal training institutions. These certificates have little or no international recognition though in many cases they signify serious training accomplishment. BKE-VI expects to be the first training institute in Hungary to offer a recognized MBA-equivalent degree (with the exception of the IMC's Young Managers Program, which can lead to an American MBA).

Largely because of its past association with the Ministry of Education, BKE-VI is not well known in the private sector and draws few trainees from private business. Both the University of Economics and BKE-VI are working to strengthen private sector links.

BKE-VI supports the Hungarian government in the effort to coordinate foreign assistance for training programs. For example, it has assisted the government in assessing proposals from Hungarian training institutions for foreign funding. BKE-VI also works with the National Council for Management

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[15] Organizational development programs are run largely through the Concordia unit of OVK, treated separately in this report.

[16] Foreign languages are not taught at BKE-VI but are a prerequisite for entrance to courses taught in English or German. To accommodate those with limited foreign language skills, some courses start in Hungarian and shift gradually into use of foreign materials and lectures.

Training of the Ministry of Education.[17] However, national coordination of training needs and assistance is weak and little or no sense of priorities is apparent.

## ETV

ETV (Epitesugyi Tovabbkepzo Vallalat) was formed in 1973 within the Ministry of Housing and Construction (this ministry also oversees transport and communications). It was spun off operationally in 1988. Today it is self-supporting and independent, though still owned by the state and run by a ministry-appointed director.[18] Courses are funded by trainees or their companies. Profits from training activities are divided between reinvestment in facilities and distribution to ETV employees.

The primary activities of ETV are training of skilled workers, management training, special training programs for senior management, computer training, conferences and forums on economic and business issues, specialized consulting, and organizational development. Trainees are drawn primarily from the 3,500 companies with historic links to the ministry, especially the construction and building materials industries.

ETV's basic management course includes four two-week segments for senior management. In the last three years, ETV ran seven of these course sequences, reaching 140 trainees. These programs are taught in Hungarian but there are plans for a German program as well. The sequence includes a mix of lectures and practical training. ETV also offers short courses that range in length from 2 - 10 days. These classes emphasize skills training for middle management and reach 2,500 - 4,500 trainees per year. A few courses have been organized and marketed jointly with MagAm, a private joint-venture training and consulting firm. These courses cover crisis management, export marketing, and marketing strategy. Some residential short courses are run at company retreat centers. Organizational development programs combining consulting and training are offered in-house.

ETV employs a staff of 40 who organize the courses and, in some cases, also lecture. Some 75 outside lecturers are used from the educational and business sectors. Courses are open to anyone on a fee basis. Employees of private companies and cooperatives now comprise 20 percent of the trainee population.

ETV is a participant and shareholder in the Open Business School initiative (see below under Distance Learning Institution).

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[17] The National Council for Management Training includes representatives from several government ministries and the directors of a number of training institutes. It describes its goals as: (1) to reduce conflicts in the market for management training; (2) to provide access to information about scholarships and other training-related matters; and (3) to coordinate international degree equivalence. Thus far it has accomplished little.

[18] This arrangement is common among training institutes that have gained operational independence from ministries.

**OKTAV**

OKTAV (IVI) is a major training institution. Founded in 1982 as IVI by the Ministry of Industry, it was later reorganized as OKTAV. Its substantial and self-contained facilities, including a hotel, are located near Ezstergom, a town on the Danube 50 kilometers from Budapest. Its original mission was to focus on middle management in industrial enterprises. The institution's role diminished in the mid-1980s in the absence of a compulsory training mandate for state-owned enterprises. Since 1988 it has been an independent, self-managed, state-owned institution.

OKTAV now serves 14,000 students with more than 800 courses in 100 subject categories. OKTAV estimates that 20 percent of its students now come from private enterprise and that this number is growing rapidly. No government personnel are trained. Courses run from a few days to 12 weeks (scheduled on a one-week-per-month-per-year basis). Short courses address functional management skills; longer courses are more theoretical. Some computer and language courses supplement the curriculum.

Course offerings are planned and announced semiannually based on OKTAV's assessment of needs and demand. A catalogue of courses is sent to 2,000 institutions and companies with a focus on industry. Courses are also advertised widely.

Despite its size, OKTAV has no permanent teaching staff. All lecturers are part time and come from outside the institution. The staff of OKTAV numbers 100; 40 staff develop and administer the teaching programs.

OKTAV typifies one category of Hungarian training institutions. Formerly subsidized by ministries and guaranteed a student population, today these institutions must prove they can operate in a free market. The largest of these institutions, OKTAV is important to the Hungarian training scene by virtue of the sheer numbers of students it reaches. If OKTAV is successful in equipping its students for the new market economy, its impact will be significant.

**Szamalk**

Established in 1982, Szamalk is a state-owned consulting and training organization formerly attached to the Central Statistical Office. It was reorganized in January 1990 as a holding company with 26 subsidiaries, including joint-venture companies with Western partners. Szamalk intends to privatize by converting component companies into joint-stock companies; and reorganizing the holding company as a public limited company (to be one-third employee owned, one-third foreign owned via joint venture, and one-third government owned).

The primary focus of Szamalk is computer applications support; it claims to be Hungary's largest "systems house," performing services in system design, computer applications, service, and training, software development, and publishing.

Linked to the holding company is an Education Center, originally established as a computer training center with United Nations Development Programme (UNDP) assistance. The Education Center now employs 100 full-time teaching staff and serves students from Eastern Europe as well the Third World. While the focus of this center remains practical computer and technical training, it has branched into management education as an adjunct. Given the needs of the changing economic climate, Szamalk intends to enlarge this training focus. The Education Center offers programs at several regional locations as well as Budapest.

The company has branched aggressively into a number of training initiatives related to management. These include:

- Programs in the role of automation as a management support tool;
- Hands-on management skills training;
- Purchased training packages, including time management (acquired from Time Management, Inc. in Denmark) and Decision Conferencing (acquired from ICL in the U.K.);
- Special programs for mid- and senior-level managers in negotiation, information resource management, marketing, and project management;
- Cooperation with the International Training Center for Banking in their program leading toward the International Banking Diploma of the Chartered Institute of Banking, an initiative involving distance learning;
- Preparation of distance learning material (books and video tapes) for accounting in cooperation with Price Waterhouse, which is developing a new accounting system for Hungary; and
- Preparation of a 20-segment TV series on entrepreneurship to be funded by Hungarian banks and insurance companies, the International Management Center, and the Manpower Ministry.

Szamalk plans to establish an International Business School that will offer a four-year program of practical management training. The program would require students to spend one year abroad in a mix of study and work. The school is scheduled to open this fall with 120 students and to expand to a full capacity of over 350 in the following years. This initiative was developed in concert with the European Business School concept and in cooperation with the Business School of London. MBA degree accreditation will be sought.[19] The estimated cost per student will be over $3,000 per year. Szamalk hopes to develop a scholarship fund that will endow one-third of this cost. The School will be established as a limited liability company. Initial capital will be provided by Szamalk.

Szamalk has the size, history, and reputation to achieve its wide-ranging vision. It is widely recognized in Hungary as the premier local consulting and training organization and is without peer in the computer applications and training area. Szamalk has the resources and tradition of quality to become an important resource for management training.

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[19] Initially the course will lead to a Business School Diploma, equivalent to the diploma granted by Hungarian three year colleges. Through establishment of links with other business schools in Europe, Szamalk hopes to gain international recognition for this diploma.

**Szenzor**

Szenzor is a spin-off from the Ministry of Industry, recently converted into a holding company for a mix of nine state-owned and private enterprises. Two of the private subsidiaries are Austrian joint ventures. Training is a minor part of this mix but Szenzor is relevant because of its serendipitous involvement in the issue of management training in Hungary.

While still a part of the ministry, Szenzor conducted a 1987 study of management training needs as part of a World Bank Industrial Restructuring Loan to Hungary.[20] The work was performed for the Ministry of Industry by Szenzor with Arthur D. Little (ADL). The study concluded that a relatively high proportion of Hungarian enterprises was lacking in the management capabilities needed to be internationally competitive. Further, the study identified important issues facing Hungarian managers at the time. These issues are still timely.[21] Drawing from these conclusions, the study recommended a variety of short-term training programs for managers from top to mid-level. Few were implemented, but Szenzor and ADL did conduct one series of workshops in strategic planning for senior managers. Subsequently, according to Szenzor, the initiative waned. Indefinite plans to resurrect this training activity exist but will require World Bank concurrence.

Szenzor has the capacity and experience to provide high-level management training, but has not given priority to doing so on a pay-as-you-go basis. If a strong Hungarian demand develops for this kind of training, however, Szenzor is likely to reenter the market more actively.

**Concordia**

Concordia was formed in 1982 as a unit of OVK (BKE-VI) with technical assistance from the United Nations Development Organization (UNIDO). Though Concordia remains linked to BKE-VI, it operates with considerable autonomy and therefore is listed separately.

Concordia's staff of 16 includes 12 teacher-consultants whose focus on the behavioral aspects of management makes Concordia unique among Hungarian management training institutions. Concordia's courses on training in organizational development are the most comprehensive in the country, although many of the new consulting firms can cover a piece of the puzzle.

Concordia follows an experimental training approach modeled on the National Training Laboratory (NTL) in the United States. Courses cover such topics as management effectiveness, the role

[20] The World Bank loan was given in support of Hungary's seventh Five Year Plan (1986-1990), which called for some structural adjustment of the economy. The loan focused on the industrial sector, which, in 1986, contributed 34 percent of GDP and accounted for 90 percent of total imports and 80 percent of total exports.

[21] The study highlighted the following needs: (1) a better understanding of the international business environment; (2) improving the organizational status of marketing and finance functions; (3) defining and establishing the role of "entrepreneurial managers" in a socialist economy; (4) strengthening the status of business management as a profession; and (5) closing gaps between theory and application in management education.

of power, leadership, presentation skills, time management, and stress management. The typical course is one week in length. Priority is given to on-site consulting interventions and training. A summer program that packages a group of courses typically is run at a retreat center.

Though it does not reach a large number of trainees, Concordia's leadership in organizational development training attracts recognition. Thus it has the potential to be an important resource for Hungarian management training.

**The Management Training Center, Hungarian Chamber of Commerce**

The Hungarian Chamber of Commerce, a holdover from the old economic system, has 2,000 enterprise members. Most are state owned. The Chamber itself is not highly regarded and is likely to face competition from emerging private sector chambers and associations (such as VOSZ, described below). The Management Training Center (MTC) of the Chamber, however, is a separate profit center established in 1989 with strong leadership and a program that is responsive to the country's emerging management needs.

The MTC, managed by a dedicated staff of six, focuses on conferences and workshops on topical issues. For example, a recent workshop on new auditing regulations drew 500 participants. Another recent workshop addressed participation in World Bank-financed projects. The MTC describes its strategy as one that is keyed to the survival needs of a transition economy.

Courses or workshops run from one to five days. While the current emphasis is on helping business men and women deal with changing procedures, rules, and legislation, the MTC plans to add programs in management skills training. The MTC identified an urgent need for practical management training, which will address such topics as capital markets, valuation, crisis management (especially related to bankruptcy), and leasing. Programs also are offered in business English and German to prepare candidates for training opportunities abroad. Course plans are determined by the MTC through informal networking with the business community and solicitation of feedback from conference and workshop participants. The MTC is a member of VOSZ and advertises its offerings through VOSZ newsletters. VOSZ and the MTC plan additional joint courses.

Trainees come from both the state-owned and private sectors of the economy but the number of private company participants is proportionately larger. The MTC uses the income from training fees to lease space for training, to pay the costs of lecturers (all part time), and to provide lodging and food for longer programs.

The MTC approach is timely and entrepreneurial. Regardless of the fate of the Chamber of Commerce, it is likely to remain a successful competitor in the market for tailored short courses and informational workshops.

## DISTANCE LEARNING INSTITUTION

Distance learning refers to training that does not take place in a training center or other specific location but rather is undertaken by individuals at their own location. Advocates of distance learning cite two major advantages: geography (travel to a training center is not necessary) and access (normally there are no entrance requirements and costs are relatively low).

Distance learning uses electronic techniques from radio and videotapes to satellites, but also includes correspondence courses. In most cases, individual learning with tapes, study books, or electronically transmitted material is supplemented with consultation (telephone or other access to a trainer), and an occasional group session where feasible. In Hungary, where distances are small and transport good, most distance learning schemes involve a strong emphasis on consultation and periodic group seminars.

As noted above, some regular training organizations (for example, Szamalk) offer a distance learning program. Recently, one new institution has emerged in Budapest that focuses solely on distance learning.

### The Open Business School

The Open Business School (OBS) was formally launched in May, though preparatory work for the first course offering started earlier. The OBS is a private joint venture, capitalized by several existing training organizations and individuals. The Open University in the United Kingdom is the source of both the distance learning concept and training materials. The emphasis of this program is on practical business training.

The OBS began with 63 students using English language materials from the Open University. The OBS goal, however, is to reach a population of 1,000 students each year with programs in Hungarian. A major effort to translate (but not adapt) the extensive Open University course materials is underway. OBS uses part-time staff drawn from other institutions and businesses.

The course itself is a mix of self-study, consultation, and brief residential sessions following the normal distance learning pattern. Most students will train while continuing full-time employment. The basic OBS program is titled "The Effective Manager" and costs under $1,000. It involves 220 hours of study over a six-month period using a package of 12 workbooks and both audio and video tapes. Courses in financial management, marketing, and other subjects will be developed later.

The OBS believes that its program fills a gap for managers with neither the time nor the money for regular training programs. Given the low percentage of Hungarians able to undertake formal higher education, a need exists for accessible continuing education. The main criticism of the OBS approach is the lack of adaptation of materials to the Hungarian context, especially in the absence of regular contact with a teacher. Nonetheless, OBS will provide an opportunity for training to those who cannot avail themselves of other programs.

## BUSINESS ASSOCIATIONS

Of the many existing and emerging business associations in Hungary, two stand out as particularly responsive to the needs of the growing numbers of Hungarian entrepreneurs and small businesses. Both of these organizations are acutely aware of the special needs of this business segment and offer a mix of services tailored to those needs. One organization, VOSZ, is a purely indigenous undertaking. The other group, SEED,[22] was started with financial assistance from the United States and continues to receive American technical assistance. The two groups complement each other and work in close coordination.

## VOSZ

Established in February 1988, VOSZ is an association of small- and medium-sized Hungarian businesses. As of late 1989, VOSZ membership included 4,000 enterprises, representing 75 percent of the private capital in Hungary. Management of VOSZ is accomplished by a board of 19 successful business persons, four of whom also lecture at the Budapest University of Economics. The VOSZ staff numbers 10. VOSZ asserts that its 17 branches assist 200,000 individual entrepreneurs. It emphasizes the Hungarian private sector as a counterpoint to business associations dominated by foreign firms and joint ventures.

VOSZ will play a limited role in formal business education. However, it will provide information and networking services to entrepreneurs. Most entrepreneurs have serious time and money problems that constrain their ability to participate in training courses. What they do want and need is relevant information about laws, regulations, and foreign markets. VOSZ sees its role as one of meeting these needs through information seminars and dissemination of topical information by radio and databases.

VOSZ has credibility, effective networks, and a strong understanding of the needs of entrepreneurs. It will be an important part of the training picture for this group.

## SEED

SEED was established early this year by a consortium consisting of several government ministries, the Budapest University of Economics, private sector representatives, and the International Management Center. Considerable impetus and some funding was provided by the then U.S. Ambassador to Hungary. SEED continues to benefit from a Hungarian-speaking, American small business expert provided by the U.S. government through an agreement between the Small Business Administration and the U.S. Information Agency. Due to the visibility of its U.S. support, SEED is perceived as an American organization. Though dependent on U.S. inputs, SEED has earned legitimacy through the good work and reputation of its Hungarian director and through the important services it is offering to the entrepreneurial community.

SEED's actual or planned activities include:

- Collecting and disseminating information about modern business methods;
- Assisting entrepreneurs to get businesses established and find foreign partners;

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[22] SEED should not be confused with the Support for Eastern European Democracy Act, which shares the same acronym.

- Promoting professional organizations for entrepreneurs (in this connection SEED is working closely with VOSZ);

- Working with Parliament to address entrepreneurial concerns via legislation, the committee structure, tax incentives, and so forth; and

- Supporting the incubator system for microenterprise by training incubator managers.

SEED also plans to organize a training program for a cadre of 20-25 persons to prepare them to become trainers specifically prepared to help entrepreneurs. These trainees would be drawn from existing training organizations and would return to those institutions with an entrepreneurial focus.

These are ambitions plans for what is still a start-up organization. SEED lacks appropriate office facilities, access to its own base of information about legal, tax, and trade regulations in various countries, and staff to provide professional support to entrepreneurs and small businesses.

At the same time, SEED is well situated to provide strategic assistance in this time of rapid economic transition. It is an appropriate vehicle for direct U.S. assistance to make possible certain immediate support functions that will take some time to develop in other associations, such as VOSZ. Over the longer term, SEED may find a permanent niche for services that can be self-financed, or its functions might be folded into other organizations as they mature. At the moment, it is the most attractive vehicle for foreign assistance to the small business sector.

Table 1 summarizes the institutions and associations described above in terms of the range of training programs offered.

TABLE 1

MANAGEMENT TRAINING INSTITUTIONS IN HUNGARY

| | Formal Degree or Certificate Programs | Short-term or Executive Training | Distance Learning | Info Seminars/ Workshops | In-Company or OJT Training |
|---|---|---|---|---|---|
| **Institutes of Higher Education** | | | | | |
| Budapest Univ. of Economics | ✓ | ✓ | | | |
| Technical Univ. of Budapest | ✓ | | | | |
| Janus Pannonius Univ. (Pecs) | ✓ | ✓ | | | ✓ |
| Miskolc Univ. | ✓ | ✓ | | | |
| College of Finance and Accountancy | ✓ | ✓ | | ✓ | |
| College of Foreign Trade | ✓ | ✓ | | | |
| College of Commerce & Catering | ✓ | ✓ | | | ✓ |
| **Specialized Western-Oriented Training Insts.** | | | | | |
| Int'l Management Center (IMC) | ✓ | ✓ | | | ✓ |
| Int'l Training Center for Bankers | | ✓ | | ✓ | ✓ |

TABLE 1 -- Continued

| | Formal Degree or Certificate Programs | Short-term or Executive Training | Distance Learning | Info Seminars/ Workshops | In-Company or OJT Training |
|---|---|---|---|---|---|
| **Established Hungarian Mgt. Training Insts.** | | | | | |
| BKE-VI (OVK) | | ✓ | | | |
| ETV | | ✓ | | ✓ | ✓ |
| OKTAV | | ✓ | | ✓ | |
| Szamalk | | ✓ | ✓ | | ✓ |
| Szenzor | | ✓ | | | |
| Concordia | | ✓ | | | ✓ |
| Mgt. Training Center, Hungarian C of C | | ✓ | | ✓ | |
| **Business Associations** | | | | | |
| VOSZ | | | | ✓ | |
| SEED | | | | ✓ | |
| **Distance Learning Institution** | | | | | |
| Open Business School | | | ✓ | | |

# SECTION FIVE

# CLOSING THE GAP: NEEDS VERSUS RESOURCES

Organized into three parts, this section of the report presents the recommendations stemming from the assessment of training needs and resources in Hungary. Part one lays out general premises, or design parameters, that will influence the selection of assistance options and implementation mechanisms. Part two reviews recommended assistance in a matrix that matches the three target groups identified in Section Three (entrepreneurs and small businesses, the finance and banking sector, and medium and large enterprises) with four potential categories of assistance: scholarships (including internships), technical assistance, commodities, and language training. The last part addresses the implementation mechanism of the training strategy and the need for future identification and coordination of assistance opportunities.

## DESIGN PARAMETERS

The previous discussion suggests several premises that guide these recommendations. Most important, in view of the limited resources available for training assistance, is a catalytic approach to assistance. Opportunities should be grasped to provide support that will have a multiplier effect, either by leveraging other funding or by building specific capacities in institutions well placed to make a key contribution to management training and management performance in Hungary.

At the same time, support to institutions should be defined in terms of time and expectations so that each assistance package has clear outputs that are mutually understood. Creation of new organizational mechanisms or undefined core support to institutions should be avoided. Instead, outcomes should be identified that can be achieved through existing structures within specific time horizons. Scholarship, technical assistance, or other support should be tailored to these limited, but clearly delineated, objectives. Given Hungary's critical position, emphasis should be given, though not exclusively, to activities with the potential for quick impact. Within this context, however, stress should be placed on beneficial impacts that can be sustained in the absence of continued foreign assistance.

Other important design parameters include the following:

- In view of the strong and varied training infrastructure in Hungary for both formal and executive training, foreign assistance should focus on retooling and strengthening the teaching quality of these institutions. Such an approach will be more efficient and cost effective than attempting to select and directly train some small segment of Hungarian managers;

- Support to public sector agencies should focus on government units that have a direct impact on private sector performance, such as regulatory agencies or local government units with economic development and business support functions. The performance of these agencies will have a major impact on Hungary's success in transforming its economy;

- Support to entrepreneurs and small businesses, which comprise the majority of Hungary's private sector, should be emphasized but, for this group, training should be interpreted to include access to information and networking services. At their level of operation, these business men and women have less immediate need for traditional management training content;

- English language training (especially business English) is of great importance both for managers who may be involved in international marketing or negotiation and for persons who will be candidates for overseas training or internships;

- The enterprise focus of assistance strategies should be on Hungarian firms as distinct from foreign joint ventures. Most joint ventures of any size have a built-in advantage in arranging internal training and executive exchange. While the United States may wish to encourage joint ventures, many viable Hungarian firms will not have this advantage and will need access to high-quality training and related services;

- Where feasible, assistance packages should be linked through add-ons to ongoing U.S. assistance projects or programs in order to minimize start-up time and bureaucratic red tape; and

- U.S. assistance should continue to be coordinated with that of other donors, especially the Group of 24.[1]

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[1] In July 1989, the Paris summit authorized the European Commission (EC) to coordinate Western aid for Hungary and Poland, including nonmembers of the EC. This authorization has enabled the Commission to move on behalf of the Group of 24 countries. In August, the EC chaired an initial coordinating meeting for aid to Hungary and Poland; U.S. representatives participated. In September, a second meeting proposed a plan for coordinated aid emphasizing trade, environmental services, and vocational training, including training for the finance and banking sectors. Although by December 1989, over $1 billion was pledged or more loosely promised by the participating donors, aid for Hungary was weighted toward credits and commercial bank guarantees. Most of these were depe dent on the completion of an agreement between Hungary and the International Monetary Fund for a $175 million standby loan. This agreement was achieved in mid-March 1990. In the area of training, the primary EC (and European bilateral) interest appears to be in postsecondary technical and vocational training. The British "Know-how Fund," launched in November 1989, plans some assistance to Hungary in management and finance areas but remains in a reconnaissance phase. The upshot is that little actual aid has flowed into Hungary.

## THE RECOMMENDATIONS MATRIX

Recommendations for the three target categories of Hungarian enterprise follow, summarized in the Table 2 matrix. The inclusion of a recommendation means that it is an appropriate and significant opportunity to consider, though not necessarily an immediate priority. The exclusion of an item, such as scholarship assistance to entrepreneurs, does not mean that such aid would be ill advised but rather that it is of secondary merit at this time. Each of the recommendations are subsequently elaborated upon by target category. Following the recommendations for each target group, the recommendations are prioritized, in Tables 3 through 8, by type of intervention: immediate or short-term assistance (up to one year) or medium-term assistance (one to three years). Where possible, recipient organizations have been identified along with rough cost estimates.

## TABLE 2

## SUMMARY OF RECOMMENDATIONS FOR TRAINING AND RELATED ASSISTANCE

| Assistance Category | Entrepreneurs and Small Businesses | Finance and Banking Sector | Medium and Large Enterprises |
|---|---|---|---|
| ✓ **Scholarship Assistance** | | • Internships in selected activities, e.g. brokerage house operations | • U.S. training and internships for key faculty/instructors<br>- retooling mid-level and senior instructors (non-degree programs for finance, mktg., strategic planning)<br>- preparing new faculty (degree program for finance, organization development, production management) |
| ✓ **Technical Assistance** | • Institutional support to private sector support organization<br>• Information center geared to entrepreneurs<br>• Translation and adaptation of training and information materials for private sector support organizations<br>• Assistance to training institutions in design of programs tailored to needs of entrepreneurs (future option — if needed) | • TA to policy apparatus to support effective regulation of finance sector<br>- bank supervision<br>- privatization<br>- finance and accounting regulations<br>- capital markets | • TA to update faculty/instructors in key subjects and support curriculum improvement<br>• TA for cooperatives for management and marketing<br>• TA to county government structure in economic development and business support functions<br>• Establish a business library |
| ✓ **Commodities** | • Office equipment for SEED<br>• Books and computer equipment to support information access at VOSZ | | • Training hardware/software support to selected training institutions |
| ✓ **Language Training** | | | • English language training to support opportunities for overseas training and to support managers with international marketing and negotiating roles |

**Entrepreneurs and Small Businesses**

This report identifies the particular needs of this group of businesses as information and networking services rather than formal training. As noted in Section Three, most entrepreneurs have neither the time, money, nor interest in formal or classical management effectiveness training. To the extent that they consider training, they desire practical and immediately useful skills. Their primary interests are how to find capital, partners, and markets for their products, and how to keep up with the changing financial and legal regulatory environment.

Two established, albeit fledgling, business associations — SEED and VOSZ — provide appropriate vehicles for targeting pertinent assistance to the entrepreneur and small business sector. However, donors should make a careful distinction between VOSZ, an indigenous, self-sustaining organization, and SEED, which from the beginning has been a vessel for U.S. assistance. Care should be taken not to create a situation in which VOSZ becomes dependent on foreign aid. With SEED, the dependency already exists (SEED is organized as a foundation, not a self-supporting entity). SEED must avoid competing with or undercutting VOSZ or other associations that may emerge for this group of business people. Meanwhile, SEED can be a mechanism for filling gaps in available services and for complementing VOSZ activities. SEED's permanence should be addressed in the future. It may well serve its purpose and close its doors; it may merge into an existing organization like VOSZ; or it may find a niche and a means of financial sustainability apart from foreign assistance.

The team recommends limiting assistance to this sector to technical assistance and commodity support.

**Technical Assistance**

1. *Institutional support to SEED:* A suitable candidate for foundation assistance, SEED is actively seeking such funding. In the meantime, as bridge money and potentially as a foundation match, SEED will greatly benefit from core funds for staffing support and office rental. This support should be limited to a six- to nine-month period to serve as a catalyst for SEED to obtain longer-term funding support. This assistance is consistent with indefinite commitments made by the previous U.S. Ambassador. In addition, the existing technical assistance provided from the U.S. Small Business Administration (through Catherine Marschall) should be continued for at least an additional six months.

2. *Establish an information center focused on entrepreneurs:* Short-term technical assistance combined with some commodity support should be allocated to create an information center at VOSZ. This center would serve the special needs of entrepreneurs and address the informational requirements of this sector. The assistance should include design of an appropriate information center, provision of core documents and subscriptions, and, based on the assessment of technical assistance personnel, automation to provide access to electronic databases.

3. *Training and information materials adaptation for SEED and VOSZ:* As additional support to SEED and to a VOSZ information center, the team recommends short-term technical assistance to help translate and adapt materials into the Hungarian language and context. The talent to perform this task should be available in-country.

4. *Support to programs tailored for entrepreneurs in selected training institutions:* In response to specific plans and proposals, financial and technical assistance should be provided to training institutions that plan high-quality training programs tailored to the needs of entrepreneurs. Particular support should be given to outreach programs that take training to entrepreneurs and small businesses outside of Budapest. The IMC, for example, is considering such a program using practicing business managers as trainers. As of this writing, however, this program's development is a subject of internal debate. This form of assistance is a future option to be supported, if needed and if opportunities exist in the form of a viable training institution plan.

**Commodities**

1. *Office equipment for SEED:* As an additional one-time input for SEED, it is recommended that office equipment in the form of microcomputers, a photocopier, facsimile machine, and telex equipment be provided.

2. *Books and computer equipment to support information center at VOSZ:* As noted in the technical assistance category, a selection of entrepreneur-related books and subscriptions as well as automated equipment for accessing data bases (including CD-ROM capability) should be provided to VOSZ.

## TABLE 3

## ENTREPRENEURS AND SMALL BUSINESSES IMMEDIATE/SHORT-TERM INTERVENTIONS

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| Institutional support<br>• advisor<br>• support staff (2)<br>• office rent | SEED | <br>6 months<br>6-9 months<br>6-9 months | $ 65,000 |
| Assistance for information center<br>• TA (expatriate) in design and development of center for entrepreneurs<br>• books, subscriptions, and business educ. materials<br>• audio-visual and computer equipment | VOSZ | 6 months<br>one-time commodity support<br>one-time commodity support | $120,000<br>$ 10,000<br>$ 30,000 |
| Office equipment (microcomputers, photocopier, fax, telex equipment) | SEED | one-time commodity support | $ 25,000 |

## TABLE 4

## ENTREPRENEURS AND SMALL BUSINESSES MEDIUM-TERM/SHORT-TERM INTERVENTIONS

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| TA (local) in materials translation and adaptation | VOSZ, SEED | 6 months | $ 5,000 |

## The Finance and Banking Sector

This sector is unique in its need for widespread training and technical assistance to cope with the rapidly changing environment in financial and capital markets. As indicated in Section Three of the report, bankers and participants in the start-up capital market require training in both practical and management skills.

The financial category has one great advantage over the other two target categories: an educational training facility has been established in Hungary that provides short-term affordable courses in practical banking skills. The institution, the International Training Center for Bankers (ITCB), is operating successfully and has strong links with the Hungarian banking sector and the Hungarian Banking Association. All of the Hungarian banks belong to the ITCB and provide feedback on the types of courses needed by the banking sector. The large Hungarian commercial banks supplement this practical training with internships arranged with correspondent banks or affiliate financial institutions. Thus the training needs of the banking sector are addressed through local training institutions and through the banks' own resources.

For this sector, the team recommends scholarship assistance and technical assistance.

### Scholarship Assistance

*Internships:* Due to the specialized nature of capital market training needs and the lack of any institution in Hungary that provides this particular type of training, the team recommends that internships be established for capital-market-related activities. The internships will be short term and provided in selected areas, such as the back office operations of brokerage houses. Internships will also be used to prepare a training program for securities dealers at the supervisory and administrative level as well as salesmen. Those persons who are expected to fulfill a regulatory role in licensing securities dealers will participate in training programs in the United States used for registered representatives and principals. Upon returning to Hungary, the participants will develop training programs in Hungarian consistent with Hungarian securities regulations.

### Technical Assistance

*Technical assistance to the policy apparatus:* To support the development and operation of financial and capital markets, technical assistance should be provided to the Ministry of Finance in bank supervision, privatization, finance and accounting regulation, and capital markets. Short-term technical assistance could be provided to the State Property Agency (which is responsible for asset valuation in preparation for privatization), the Bank Supervisory Board (which is responsible for supervising the banking system), and the State Securities Supervision Board (the Hungarian equivalent of the Securities Exchange Commission). Technical assistance to these regulatory bodies will facilitate their efforts to develop policies and establish the mechanisms for controlling and monitoring the implementation and impact of the regulations.

**TABLE 5**

**FINANCE AND BANKING SECTOR**
**IMMEDIATE/SHORT-TERM INTERVENTIONS**

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| TA to the policy apparatus | • State Property Agency | 12 months | $200,000 |
| | • Bank Supervisory Board | 12 months | $200,000 |
| | • State Securities Supervision Board | 12 months | $200,000 |
| | • Ministry of Finance | 12 months | $200,000 |

**TABLE 6**

**FINANCE AND BANKING SECTOR**
**MEDIUM-TERM/SHORT-TERM INTERVENTIONS**

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| Internships/Short-term financial training | To be selected from firms active in capital markets | 1-3 months | $140,000-$420,000 |

**Medium and Large Enterprises**

This category co\ ers companies in the agribusiness, industrial and commercial sectors. Managers in these enterprises principally need management training in the areas of financial management, business planning, international marketing, human resource management (career planning, motivation, and so on), and production management (production scheduling and quality control). Because of the strong and varied training infrastructure in Hungary for both formal degree programs and executive training, foreign assistance should focus on strengthening the teaching quality of these institutions. By upgrading the teaching skills and commodities of the institutions, the assistance will have a significant multiplier effect as the teachers and trainers pass on their knowledge and skills.

The team recommends assistance to this sector in scholarship assistance, technical assistance, and commodity support.

**Scholarship Assistance**

1. *Scholarships:* Instructors must be trained in the west so that they understand the typical curriculum and teaching materials used in a business training institution. Providing training for professors and teachers from major training institutions involves a dual approach of scholarship assistance and internships. Two types of scholarship programs should be established. One scholarship program will provide training for mid-level and senior instructors currently teaching business courses. This training will involve a short-term (less than one-year), nondegree course of study, primarily in the subject areas of finance, marketing, organization management and strategic planning. These are subjects now being taught at formal training institutions and informal executive training courses. Depending on the needs of the individual instructor, this scholarship training could range from one to several courses on a particular topic.

To address the demand for management training in fields not offered in Hungary, it is necessary to develop a long-term degree program for future instructors. Scholarship training of this type is needed, particularly in corporate finance, personnel development, and production management. Because of the length of time involved in the training, the team recommends that this scholarship program be developed for formal institutions of learning, such as colleges and universities. The scholarship training will consist of PhD and MBA programs and should be provided to recent graduates of universities and to junior faculty members who will be trained in one of the new subject areas, with the goal of creating new courses at Hungarian colleges or universities upon their return from the scholarship program.

These scholarship programs should primarily be targeted at Budapest University of Economics because it trains approximately 90 percent of Hungary's senior and upper-level management. Other institutions that should be targeted for the scholarship programs include Janos Pannonius University, Miskolc University, the College of Finance and Accountancy, and the College of Commerce and Catering. Instructors participating in either of these scholarship programs should go abroad in teams from the same institution to maximize their experience and facilitate implementation of new courses in Hungary. These scholarship programs will have a double multiplier effect because instructors will train future managers as well as train other instructors.

2. *Internships:* In conjunction with both of the scholarship programs, internships should be arranged for the instructors participating in the programs. The aim of the internships is to augment the theoretical educational experience of the instructors with practical experience in a market economy, including exposure to the corporate work ethic. The internships would be two to four months in length and would begin immediately following completion of the scholarship program or operate with the scholarship program.

The option to provide training to existing managers through the scholarship and internship route was considered, but rejected because it lacked both cost effectiveness and a multiplier effect. In addition, most top managers could not afford the time away from their jobs. Hungarian experience also suggests that training individuals in enterprises, as distinct from work groups, has little effect on organizational performance.

**Technical Assistance**

1. *Technical assistance to update instructors and support curriculum improvement:* In addition to the establishment of scholarship and internship programs to strengthen training institutions, two short-term technical assistance programs should be simultaneously implemented to update faculty and instructors in key subjects and to support curriculum improvement. The first form of technical assistance involves bringing professors and business persons from the United States as lecturers to train Hungarians. This technical assistance would act as a bridge by providing training to Hungarian managers and instructors until the scholarship instructors return to Hungary and can develop and begin teaching managerial courses. Team teaching with Hungarian instructors should be encouraged to have a multiplier effect.

The second type of technical assistance will entail a review and evaluation of the curriculum of the major training institutions. The curriculum should be analyzed to determine the course content as well as types of materials used (such as texts, case studies, computer programs). This analysis will determine the types of courses and commodities best suited for each institution. The assistance should target both formal educational institutions and the Hungarian training institutions listed in Section Four.

2. *Technical assistance to cooperatives:* Cooperatives, existing and newly emerging, primarily agricultural and industrial, have institutional training needs that extend beyond training for individual managers. They require technical assistance, particularly in cooperative management and marketing.

3. *Technical assistance to county governments in economic development and business support functions:* To reach businesses outside of Budapest, the team recommends that technical assistance in economic development and business support functions be provided to county governments. This technical assistance will be administered in the form of a short-term (6 - 12 months) advisor to government, business, and training institutions, who would assist in investment and economic development. A pilot project for this type of technical assistance operates in the southern city of Pecs, which covers the county of Baranya (a county in Hungary is equivalent to a state in the United States). This pilot project should be expanded to all 19 counties of Hungary. Mr. Robert Pierce operates this pilot project as a volunteer, and is a likely candidate to oversee this type of technical assistance program, which should seek to tap the resources of volunteer organizations such as Volunteers in Overseas Cooperative Assistance (VOCA), International Executive Service Corps (IESC), SCORE, and the Citizens Democracy Corps.

4. *Establish a business library:* One of the pressing needs of the private sector in Hungary is business and market information, ranging from commodity prices within Hungary to current legal and financial regulations inside and outside Hungary. To address this need, a business library should be created and staffed at one of the existing major training institutions. This library will include texts, magazines, case studies, and reference materials. While it is suggested that the business library be established at the Budapest University of Economics (because of its historical role in training the majority of top management in Hungary), the library will be open to all Hungarians. Staffing for the library will require short-term technical assistance from a research librarian from the United States. This research librarian will be in charge of the library and train Hungarian librarians in business research and reference functions.

**Commodities**

*Training materials and hardware/software support to selected training institutions and the business library:* As noted in the technical assistance category, the type of commodities (equipment as well as materials) will be determined after the evaluation of the training institutions. The business library, also mentioned in the technical assistance category, will require equipment (furniture and computers) and materials such as a selection of management-related books, subscriptions, case studies, and other reference material.

**English Language Training**

While language training in English is needed by all the business groups, the medium and large enterprise group requires English not only to take advantage of opportunities for overseas training but also to support managers with international marketing and negotiating roles. The acute need for this group is the acquisition of business English, to enhance capability to conduct business internationally. There are several language training schools in Hungary capable of addressing this need, especially the College of Foreign Trade. In addition, the Peace Corps is in the process of setting up English courses in the rural areas. The United Kingdom also proposes to provide language training through the Know-How Fund. Although a great demand for English language training exists in Hungary, the market likely will expand to fill this need. This category of need should be monitored over the coming months.

**TABLE 7**

**MEDIUM AND LARGE ENTERPRISES**
**IMMEDIATE/SHORT-TERM INTERVENTIONS**

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| TA to update instructors in Hungarian training institutions and support curriculum improvement | Institutes of higher education[2]<br><br>Selected Hungarian training institutions[3] | 6-9 months | $1,750,000 |
| Establish a business library | Budapest University of Economics (but open to all) | 9 months | $ 150,000 |

---

[2] All seven institutions described in Section Four should be considered. For maximum impact, the Budapest University of Economics and the College of Finance and Accountancy are priorities (see Section Four for a description of these institutions and their role).

[3] The most likely recipient institutions based on current programs and impact are BKE-VI, ETV, OKTAV, and the Management Training Center of the Hungarian Chamber of Commerce (see Section Four).

**TABLE 8**

**MEDIUM AND LARGE ENTERPRISES**
**MEDIUM-TERM INTERVENTIONS**

| Item | Recipient | Duration | Cost |
|---|---|---|---|
| Scholarships for instructors<br>• non-degree programs<br>• degree programs | Selected teaching staff from Hungarian Universities and Colleges active in business education (see Section Four) | 3-9 months<br>2-5 years | $1,200,000<br>$2,500,000 |
| Internships for faculty of major training institutions | Linked to scholarship program above | 2-4 months | $1,200,000 |
| Training materials and computer support to selected institutions | Selected training institutions | One-time commodity support | To be determined |
| TA to cooperatives in management and marketing | To be selected | 6 months each for 2 years | $ 240,000/year |
| TA to county governments[4] | 19 counties in Hungary | 9-12 months | $ 100,000 |

## IMPLEMENTATION ISSUES

The recommendations summarized in Table 2 and outlined in Tables 3 to 8 include items that will require additional review in the coming years. In addition, every possible avenue of assistance cannot yet be determined with any confidence. For example, there may be a significant role for donors to play in assisting the business associations likely to emerge in Hungary. Among other useful functions, such organizations may set standards in accounting and auditing, or define qualifications for certain key positions in the banking sector. The United States or other donors should not initiate such associations, but rather provide appropriate and bounded assistance to help them become effective. This kind of assistance will require a capacity to determine needs and opportunities in the future.

[4] This item assumes use of volunteer organizations providing executives for short-term positions and living expenses paid for by local governments.

The pace of change and level of uncertainty in Hungary add to the importance of the function of assessing management training needs and mobilizing and demobilizing short-term technical and other assistance. Just as the needs will change from those reported here, so also will the available implementation opportunities and mechanisms. New projects from A.I.D. and other U.S. agencies will provide opportunities for cost-effective buy-ins that cannot be forecast now.

For these reasons, we recommend a small, long-term technical assistance presence to manage the Hungary assistance package. One possible arrangement would include a single expatriate assisted by one technical and one support staff locally hired. These persons should possess skills applicable to some of the short-term technical assistance tasks recommended above. Additionally, capacity in training design and technology will be particularly useful.

Among the tasks to be performed by this technical assistance team are:

- Review and recommend types of assistance to meet opportunities suggested in this report as possible future options (such as training for entrepreneurs or English language training assistance) or opportunities not anticipated in this project;

- Organize and manage the selection process for scholarship and internship candidates;

- Manage in-country, short-term technical assistance;

- Monitor all assistance provided, and coordinate reports to U.S. agencies providing aid;

- Direct technical assistance to Hungarian training institutions and associations such as VOSZ and SEED; and

- Coordinate with other donor programs in Hungary involved with management training.

# ANNEX I

# PROJECT METHODOLOGY

# ANNEX I

# PROJECT METHODOLOGY

This study was commissioned by the Bureau for Asia/Near East of the U.S. Agency for International Development (AID/ANE). The purpose of the study was to develop a multiyear management training strategy that would address the key human resource constraints in Hungary's transition from a command economy to a market economy. The strategy was to promote human resources development within the private sector by a combination of both short- and long-term academic training and technical assistance, in Hungary and in the United States.

The study was conducted by a two-person team, which consisted of a private sector analyst and an education and training specialist. The fieldwork was carried out during a five-week period in April and May 1990. The project embodied three phases using the following methodology:

Phase 1: Literature Review/Key Sector Selection/Data Collection Instruments.

This first phase involved a review of relevant documents addressing issues in the Hungarian economic transformation, characteristics of the Hungarian private sector, and descriptions of key subsectors and institutions in the public and private sectors with critical roles in the development of a market economy (see Annex III for bibliography). On the basis of the literature review and in consultation with AID/ANE, the team decided to concentrate the management training appraisal on several economic sectors determined to be key to Hungary's near-term economic transformation. The sectors identified were agriculture, finance, and services. The team also developed data collection instruments for in-country analysis of training needs and training resources.

Phase 2: Fieldwork: Key Private and Public Sector Players/Support Organizations/Educational and Training Institutions.

A two person team carried out the fieldwork over a five-week period. The team interviewed 29 companies and business associations from the agribusiness, financial, industrial, and commercial sectors. A broad cross section of companies were visited including private entrepreneurs in small and medium-sized businesses, cooperatives, large state-owned companies and foreign joint ventures.

The team met with seven Hungarian government ministries and agencies to ascertain training requirements and the mechanisms for coordinating donor assistance for management training. The utility of speaking with government officials was limited by the fact that the field visit occurred during the period of transition to the newly elected non-Communist government formed in May 1990. At the time of the fieldwork, neither the new officials nor their policies had been determined.

On the training resource side, the team interviewed 17 training institutions to assess their capabilities to provide management training in business and technical skills. These organizations ranged from educational institutions of higher learning such as colleges and universities to specialized management training institutions. Private sector support organizations were examined for the types of business services provided to their member firms as well as their capability to deliver management training.

Although most of the companies and training institutions were located in Budapest or its vicinity, the study team visited the cities of Pecs, Ezstergom, and Nagyere.

At the conclusion of the fieldwork, the team presented a briefing on the findings of the study to the economic officers of the U.S. Embassy in Hungary and the USIA representative.

Phase 3: Findings/Recommendations/Strategy

Findings from the fieldwork were analyzed, from which recommendations were made for a multiyear managerial and technical skills training strategy. The strategy addressed both immediate and medium-term needs and recommended the appropriate interventions. A report of the findings and recommendations was prepared for AID/ANE. This was followed by a presentation of the strategy to A.I.D., the State Department, and several agencies of the U.S. Government.

# ANNEX II

## PERSONS CONTACTED FOR MANAGEMENT TRAINING ASSESSMENT IN HUNGARY

6-2

# ANNEX II

## PERSONS CONTACTED FOR MANAGEMENT TRAINING ASSESSMENT IN HUNGARY

### I. Government of Hungary

State Property Agency

| | |
|---|---|
| Charles Twyman | Privatization Consultant |
| Thibaut de Saint Phalle | Legal Affairs Consultant |

Ministry of Agriculture and Food - Food Industrial Department

| | |
|---|---|
| Emil Keleti | Counsellor |

Ministry of Industry

| | |
|---|---|
| Peter Manhalter | Head of Department |

Ministry of Finance

| | |
|---|---|
| Dr. Klara Kovari-Csoor | Senior Counsellor, State Banking Supervisor |

State Office for Labour and Wages

| | |
|---|---|
| Dr. Maria Frey | Director |
| Margit Rodak | Project Manager |

Minister Council

| | |
|---|---|
| Dr. Frigyes Banki | Chief Counsellor |

Ministry of Education and Culture

Lehel Kadar
Dr. Istvan Polonyi
Sandor Fazekas

Embassy of the Republic of Hungary (Washington,DC)

| | |
|---|---|
| Istvan Pataki | Minister Counselor |
| Dr. Istvan Mohacsi | First Secretary |

### II. Government of the United States

Embassy of the United States of America (Hungary)

| | |
|---|---|
| Sandra Demski | Economic Officer |
| Jeffrey Feltman | Economic Officer |
| David Hughes | Commercial Officer (FCS) |

| | |
|---|---|
| Thomas A. Lynch, Jr. | First Secretary (Political Officer) |
| Robert McCarthy | USIA |
| Brian J. O'Connor | Assistant to the Ambassador |

U.S. Small Business Administration (Advisor to SEED)

| | |
|---|---|
| Catherine S. Marschall | Associate Deputy Administrator for Special Programs, Acting |

U.S. Department of Labor, Bureau of International Labor Affairs

| | |
|---|---|
| Robert Bednarzik | Senior Economist, Foreign Economic Research |
| Lydia A. Sigelakis | Office of Foreign Relations |

U.S. Agency for International Development

| | |
|---|---|
| Donald Pressley | Director of the Office of European Affairs, ANE |
| Michael Morfit | Officer in Charge of Eastern European Affairs, ANE |
| Thomas Chapman | Human Resource Development Officer, ANE |
| Margaret Bonner | AID/W, Office of Egypt and European Affairs |

U.S. Information Agency

Matthew Weiler

## III. Educational and Training Institutions

International Management Center (Budapest)

| | |
|---|---|
| Dr. Daniel S. Fogel | Academic Director and Dean |
| Zsuzsanna Ranki | Managing Director |
| Dr. Janos Vecsenyi | Professor of Policy and Strategy |
| Dr. Jozsef Poor | Consulting Director |
| Janos Feher | Assistant Professor |

Catro - Szensor (Budapest)

| | |
|---|---|
| Dr. Tamas Garai | Managing Director |

Mag - Am Kft. (Budapest)

| | |
|---|---|
| Robert Kiss | General Manager |

Technical University of Budapest (Budapest)

| | |
|---|---|
| Dr. Tamas Lajos | Pro-Rector |

Budapest University of Economics (Budapest)

| | |
|---|---|
| Dr. Erno Zalai | Vice-Rector |
| Dr. Tamas Meszaros | Dean |

Open Management School and Consulting Ltd. (NVT) (Budapest)

| | |
|---|---|
| Dr. Gabor Nahlik | Managing Director |

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International Training Center for Bankers Ltd. (Budapest)

| | |
|---|---|
| Janos Szaz | Director of Education |
| Katalin Forgacs | Course Director |
| Gyorgy Martin-Hajdu | Course Director |

Szamalk (Budapest)

| | |
|---|---|
| Miklos Havass | General Manager |
| Dr. Sarolta Zarda | Department Head |

College of Finance and Accountancy (Budapest)

| | |
|---|---|
| Dr. Lajos Kallai | Rector |
| Dr. Imre Sztano | Deputy |
| Dr. Jozsef Rooz | Assistant Head Rector |
| Dr. Tamas Radvany | Head of Language Department |

Hungarian Chamber of Commerce, Management Training Center (Budapest)

| | |
|---|---|
| Sandor Nagy | Director |

OKTAV (Esztergom)

| | |
|---|---|
| Dr. Gyula Paal | Director |
| Dr. Gyula Voros | Deputy Director |

College of Foreign Trade (Budapest)

| | |
|---|---|
| Gyozo Kenez | Managing Director, International Relations |
| Dr. Judit Hidasi | Assistant Principal |

Orszages Vezetokepco Kozpent (OVK) (Budapest)

| | |
|---|---|
| Dr. Balazs Hamori | Dean of Postgraduate Studies |
| Dr. Andras Bauer | Department of Marketing, Budapest Univ. |

Epitesugyi Tovabbkepzo Vallalat (ETV) (Budapest)

| | |
|---|---|
| Janos Koska | Director |

Institute for Postgraduate Studies in Economics (KTI) (Budapest)

| | |
|---|---|
| Peter Pal Gaspar | Managing Director |
| Gyorgy Balogh | Project Manager |

Institute of Management and Postgraduate Training, Godollo Agricultural University (Godollo)

| | |
|---|---|
| Dr. Laszlo Kramar | University Lecturer |

Janus Pannonius University (Pecs)

| | |
|---|---|
| Ivan Belyacz | Vice-Rector |
| Jozsef Voros | Dean of Economic Studies |

University of Heavy Industry at Miskolc (Miskolc)

| | |
|---|---|
| Janos Szadai | Professor |

College of Commerce and Catering (Budapest)
Dr. Judit Sandor — Pro Rector

## IV. Private Sector Support Organizations

American Chamber of Commerce
Michael J. Shade — President

National Association of Entrepreneurs (VOSZ)
Janos Palotas — President
Dr. Peter Szirmai — Co-President

Foundation for Small Enterprise Economic Development (SEED)
Agnes Tibor — Managing Director

National Federation of Agricultural Cooperators and Producers
Peter Toth — Counsellor, International Relations

Independent Chamber of Commerce
Dr. Dietmar E. Clodo — Secretary

Hungarian Banking Association
Gyorgy Fodor — Deputy Secretary General

Foundation for Hungarian Economic Development
Ivan Volgyes — Director

## V. Financial Institutions

Budapest Bank Ltd.
Laszio Sipos — Deputy Chief Executive
Dr. Peter Szekacs — Director

Citibank Budapest
Dr. Gyula Fay — Deputy General Manager

Commercial and Credit Bank Ltd.
Lajos Suba Jasz — Director
Dr. Tibor Bodo — Director-General Manager
Katalin Bagya — Educational Director

Hungarian Credit Bank Ltd.
Tamas Karsai — Director

## VI. Hungarian Companies

| | |
|---|---|
| Ralston Purina | |
| Harrison C. Givens | Managing Director |
| Hotel Duna Inter-Continental | |
| Dr. Lajos Menyhart | General Manager |
| Ernst & Young Bonitas | |
| Robert Bellia | Director of Audit |
| Price Waterhouse | |
| Les Bonnay | General Manager |
| Plasteam GM | |
| Jozef Ulfalussy | General Manager |
| Rolitron | |
| Laszlo Rozsahegyi | President |
| Laszlo Steiner | Managing Director |
| Computerworld Informatika Ltd. | |
| Dezso Futasz | Managing Director |
| Skala Metro Kereskedelmi Leanyvallalat | |
| Dr. Klara Csik | Commercial Director |
| Reform News Magazine Hungarian-American Newspaper and Book Publishing Co. Ltd. | |
| Peter Toke | President |
| Bela Huppan | Production Manager |
| Fregatt Pub | |
| Gabor Dobrentei | Principal Owner |
| Szoloskert Mezogazdasagi Termeloszovetkezet | |
| Andras Nagy | General Manager |
| Benjamin Bardos | Manager |
| Schwinn (USA) - Csepel Company Ltd. | |
| Steven M. Bina | Director, European Operations |
| Hungarian National Oil and Gas Trust | |
| Ferenc Vissi | Deputy Personnel and Educational Director |
| Blue Danube | |
| Geyza G. Alpine | Director |

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## VII. Other Organizations

Victoria International Corporation (Boston, MA)
- David A. Borden — President

International Valuation Services Inc. (Budapest)
- Robert J. Toltzman — Managing Director

Baranya Council (Pecs)
- Robert M. Pierce — Advisor for Economic Development

Virginia Polytechnic University (Blacksburg, VA)
- Dr. Magda Czath — Professor of Management

University of Tulsa (Tulsa, OK)
- Robert Hisrich — Professor

James Madison University (VA)
- Dr. Lee W. Congdon — Professor of History

North Carolina Department of Education (Raleigh, NC)
- Laszlo Demecs — Professor

Duke University (Durham, NC)
- Dr. Thomas Naylor — Professor of Economics

# ANNEX III

# BIBLIOGRAPHY

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## BIBLIOGRAPHY

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