

**THE FORMATION OF NETWORKING COOPERATION  
AMONG SMALL ENTERPRISES IN CENTRAL EUROPE**

Edited by Akihiro Ishikawa

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## ***Introduction: Problems, Findings, and Implications***

Akihiro Ishikawa

Csaba Mako

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It is without doubt that newly emerging small enterprises have contributed greatly to a peaceful transition of society in Central European countries. They have absorbed the abundant working people who were unloaded from state and public enterprises, and have provided them with different jobs for their survival. Besides this, they fill with high flexibility the economic requirements to which the existing state and public enterprises could not correspond. They play great roles as components suppliers for industry, as workforce organizers for construction, as distributors of daily necessities for consumers, and so on. Without the diversification of their activities, the soft-landing of the economy and society into the new system could not have been attained.

In spite of this fact, there are problems. Due to their immaturity of business experiences on one hand, and the shortage of political and institutional support for them on the other, they are situated in unstable and insecure positions, which reproduces a hotbed for collapse and hinders their sound development. There is among them a scarcity not only of financial resources, but also of technological and managerial knowledge as well as market information. One way to overcome these problems might be found in support from the State, while another may be found in spontaneous network formation to promote the exchange of their experiences among themselves.

However, there are serious problems hindering the development of network cooperating activities in Central European economies and societies, such as social isolation, underdevelopment of business ethics, prevailing distrust, and an anti-collectivist ideology.

A majority of small enterprise owners rarely have social relations with others even in the same branch of economic activity, and are running businesses alone without sharing common experiences and information. They are mostly isolated from each other and indifferent to each other, and rather suspicious of each other as well. Hence their individual experiences and know-how cannot be accumulated collectively in an effective way.

Such an isolated situation hampers a development of business morale and ethics among them. On the other side, there is a vacuum of legal and institutional arrangements. These are sometimes hotbeds for unethical (sometimes criminal) commitments in the business world. There is a dearth of social mechanism for controlling those commitments.

There is a deep distrust both between enterprise owners and between employers and employees in small enterprises. Labor turnover is of high frequency, and the enterprises mostly lack a cooperative culture. This hinders the management from an effective and efficient utilization of human resources.

The problems outlined above prevent small enterprise owners from sound development of the awareness of trust between themselves on the one hand, and they impede the growth of the social respect accorded to them on the other. They are often regarded in society as mere money-seekers, and their social and cultural status is reputed to be rather low. This leads to their isolation not only in business activities but also in social activities.

These situations produce high social costs not only for individual firms but also, for example, the national economy. In order to overcome those problems, development of the sociability of enterprise owners

and the cooperating relationship between enterprises should be stressed. Although a market economy presupposes individual economic subjects, civil society assumes the sociability of business performers. Sociability in this sense is a basis for information sharing and the enhancement of the learning effectiveness of enterprise owners, as well as for further development of business ethics and social norms among them, which might raise their reputation and prestige in society.

It should be pointed out as well that in Central Europe, any collective mechanism for small enterprises has been rather neglected under the political and ideological orientation toward Liberalism. Although the “collective” or “social” is associated negatively with “communism” or “socialism” in those societies, it is strategically indispensable to develop such a collective mechanism for the further social and economic promotion of small businesses in a spontaneous way toward maturing their sociability.

Even in such situations, we meet noteworthy cases, though still few, of the clusters of networking businesses and joint actions among small entrepreneurs in some regions and branches in Central Europe. The aim of this volume is to display some of those cases.

The cases that are featured herein involve clusters of small enterprises in the following sectors.

1. International transportation (Nowy Sacz, Poland)
2. Plastics-related manufacturing (Tarnow, Poland)
3. Computer-related business (Nowy Sacz, Poland)
4. Engineering (Ostrava, Czech Republic)
5. Furniture manufacturing (Domazlice, Czech Republic)
6. Regional newspaper publishing (Czech Republic)
7. Small business chambers (Tmava, Slovakia)
8. Local carpenters (Dunajska Streda, Slovakia)
9. Small motor car drivers association / Fire protection association (Slovakia)
10. Local carpenters (Village in Pest County, Hungary)
11. Weekly Internet magazine design (Budapest Hungary)
12. Internet homepage design (Budapest, Hungary)

Under those networking activities lie not only the *common business interests* to be shared by individual members, but also the *qualified professional skill* of each member, which other members can rely on with high credibility. The level of professional skill among the members is a key factor to acquiring a good reputation from customers and in the marketplace. Another key factor is the *leadership ability* of a coordinator in a given network. The coordinator as a leader of the network is endowed with at least three traits: a solid and passionate *belief* in the value of cooperation, a faithful *personality* with morals, and *political ability* to find the proper orientation and operation in a given environment, to the extent that it is useful for both the business and the environment.

In the background of a cluster formation, we can notice the *common or similar past experiences* of network participants. Some have been inhabitants of the same local community where they have known each other from childhood, others were working in the same state company and then spun off from there, and still others are faced with the necessity of cooperation to compete against large-scale businesses within the same sector. Those experiences have led to network formation on the basis of the faithful initiative of a capable and reliable person and the *trust* of participants.

The relationships inside networks are varied. Some cases have a hierarchical structure where a mother company organizes subcontractor firms, while others are connected with each other in a horizontal way. The

relations are based on a short-term contract, but basically the most essential element is an unwritten trust. In some cases there is no official written contract but only an oral consultation. In most cases, state or public institutions have not assisted the birth and development of the networks in a significant way, with the exception of Case 2 mentioned above, where networking is part of the regional development program of the local and regional authorities under the decentralization of public administration. Network activities do not seem to work well in rigid formal organizations. Even though they started as a formal group organized from the above, like Case 7, the group activities became activated after it became *less formal* than the below in a spontaneous way. Even if the purpose of participants is the same, the autonomy and independence of individual members is necessary. In reality there are *not only cooperating but also competitive* relations between members. This should be neglected; otherwise, the members will lose their interest in participating. Membership and participation in the activities should not be compulsory, but *voluntary and spontaneous*, and it is necessary to preclude any dogmatic way of thinking, as mentioned by some members of a network case in our study.

We will see how some members engage in the social and cultural affairs of a local community with their voluntary initiatives, although these are rather exceptional cases, and other members look at those activities as a matter of the individual. No collective and intentional action by a network as a whole for local or regional development was found among the cases raised in our studies. However, there are those who felt they benefited by a certain *social prestige* in their local society thanks to membership in the network.

Our case studies reveal an economic organizational pattern that evolved as a result of the cooperation among small enterprises. The focus of our studies was primarily left on the circumstances under which the cooperation had emerged, its objectives and activities, and the economic and social factors that contributed to its functioning and maintenance. The case studies were essentially based on the interviews with those participating in the cooperation.

To address the above issues by setting up an analytical framework of the phenomena concerned and providing an explanation for the interpretation of the behavior of economic players, certain theoretical concepts need to be introduced.

One of the key notions is of an “**industrial district**,” which means a geographical agglomeration of the enterprises of a related industry. This is characterized as a production organization model that is more flexible than a large-scale industrial enterprise structure because it builds up a network of small- and medium-sized firms. Firms operating in an industrial district usually embark on producing or offering certain kinds of products or services jointly, and their network is situated in a certain area that is easily distinguished geographically. The parties involved are ready to cooperate, and within the group, they are also ready to share their resources. They possess qualified human resources that can be utilized in a flexible way. It is not solely the logic of the market that regulates the relations between the small enterprises of an industrial district, but various social and cultural factors also play an important role.

Among other factors, *trust* is a significant factor outside economic relations. Trust is an invisible social control mechanism that offers the chance for the cooperating parties to eliminate the risks created by the competitive nature of market conduct. It is long-term interests that are emphasized in activities based on trust, rather than immediate profit. Psychological interpretation of trust emphasizes continuity, predictability, and the adherence and representation of some coherent values in the behavior of an individual. From a sociological viewpoint, it has an outstanding role in preserving social cooperation and support for parties to survive jointly in any change of economic environment that is unpredictable or difficult to influence. The effect of trust as an invisible social regulating mechanism comes into force during the enforcement of the long-term interests of those involved. Its contents are regarded as consisting of three components: the right level of political and/or

professional preparedness of the participants; the moral skill or competence that refers to the mutual tolerance of values, beliefs, and interests of participants; and the behavior according to the commonly agreed norms.

In addition to these three components, the function of time is also to be emphasized. Securing the professional-technical component of trust requires considerable efforts on behalf of participants; yet, it is more difficult, especially in the long run, to preserve moral competence, which can only be maintained through an extremely time-consuming effort, although it is indispensable for preserving the balance between competition and cooperation by individual enterprisers operating in a network.

In the economy of a network, it is not only direct economic interests that affect the cooperation between partners; certain *social and cultural values as well as institutions* also play a part. In other words, the behavior of economic players is not regulated solely by the logic of the market, but it is deeply embedded in the system of values, norms, and institutions in the society where they live.

The function of dense networking built on strong relations is to strengthen sub-cultures and collective identities that lead to social cohesion. On the other hand, loose links might promote a successful adaptation to the changing environment. The model of successful economic cooperation might be described as a mixture of strong and loose links. This model should take a specific shape in accordance with *time and content*. The time dimension is related to the life cycle of a network. In the case of a “young” network, for instance, the main concern may be in a well-definable objective as a target of cooperation, rather than the density of relations inside it. As for the dimension of content, namely the objective, the modus operandi of a network (channels of communication, rules, values, norms, etc.) is to determine the behavior of those involved.

Our case studies showed that there exists a successful and effective economic model that bases itself on a certain mixture of competition and cooperation, in which firms with specific skills and tasks are related to each other in a loose networking link. In such a case, individual success is dependent on the effectiveness of the cooperation of the enterprise owners. There are also non-economic factors rooted in trust that shape the behavioral patterns regulating cooperation. We assert that success in a market economy is not based only on the individual actions and competitive behavior of a given enterprise owner, in contrast to the views of neo-liberal economic theories.

# **1. Network Relationships within International Freight Transport Clusters in Nowy Sacz County (Poland)**

Jacek Gancarczyk  
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## **1. External conditions of freight transport networks**

### **1.1 Nowy Sacz County**

The geographical scope of freight transport companies in Nowy Sacz, Poland, covers the area of Nowy Sacz County, including Nowy Sacz itself (80,000 inhabitants) and adjacent communities, namely Korzenna, Stary Sacz, and Lacko. The Nowy Sacz region is situated in the south of Poland, which has always been poor and undeveloped. The region was characterised by small farms, low incomes, and a lack of industry. Since the 19<sup>th</sup> century, these conditions have caused residents to migrate to other areas, especially to the U.S. and Western Europe. Poles from the south of our country did not break the ties with the family they left in Poland. They often financially supported their relatives, which resulted in the increase of unofficial income. Since the transformation, breakthrough contact with foreign countries has led to the origin of various business ideas. Nowy Sacz is the hometown of such companies as Optimus S.A., the first producer of computer equipment in Poland and all former Soviet countries. Other companies include: Konspol, a producer of all kinds of poultry known in Poland as well as abroad; WSB-NLU, one of the first private high schools and a leading Polish business school; and finally, ZET Transport, one of the largest transport companies in Poland. The above examples, as well as the high ratio of private enterprises per capita, make the Nowy Sacz region a model example of entrepreneurship that has developed in spite of its unfavourable location in the region and its distance from administrative and industrial centres.

The standard of living we can observe here differs considerably from the official data concerning people's incomes, which can be explained by the work migration and by a large black market economy. The level of self-government and public activities is also very high. A long time ago, in the 1960s, the communist government allowed the inhabitants to carry out *the Nowy Sacz experiment*, which consisted of delegating more power to the local authorities. Later, during the period of transformation, another pilot programme was initiated, concerning the administrative reform and decentralisation of power.

The political situation is largely created by conservative parties that developed strong ties with the Catholic Church. The church has a large influence, which is reflected in the system of values and in traditional religious practices. Family ties are also very strong, especially in business. Almost all transport companies are family businesses.

### **1.2 Conditions leading to the creation of clusters**

Freight transport companies started their operations in the Nowy Sacz region at the end of the 1980s, when the bill on economic activities allowed for private enterprises to be formed. We can use M.E. Porter's diamond<sup>1</sup> to

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<sup>1</sup> M.E. Porter claims that the factors responsible for the creation and competitiveness of clusters are demand conditions, strategy, structure, rivalries among companies, related and supporting industries, and factor conditions, as well as chance (specific events) and government policy. M.E. Porter, *The Competitive Advantage of Nations*, The Macmillan Press Ltd, 1994, p.72.



differentiate the factors enabling the creation of this industry. Among them are the constitutional amendment that allowed private enterprises to operate, local enterprises' building of the dam on the Dunajec River, and the construction *boom* caused by the building of the dam. The demand was connected with the transport infrastructure created for the new private companies and the already mentioned construction of the dam.

The strategy, structure, and type of competition between the companies were influenced by foreign contacts the entrepreneurs had and the professional experience of transport companies that were created mainly as spin-offs of the state-run companies. Foreign countries were also the providers of starting capital and necessary infrastructure, because initially only second-hand equipment was used, usually purchased in Germany (Poland did not even have a second-hand equipment market at that time). The influence of related and supporting industries was noticeable in the development of the construction industry.

Among the factors stimulating the origin of transport companies was the inability to find a favourable technical infrastructure or good location. On the contrary, these factors were definitely unfavourable. Most international transport companies are located near the communication corridors Poznan – Warsaw and Cracow – Silesia. The road infrastructure is very poor. Moreover, the region's economy is based on agricultural and tourism; therefore, the transport sector does not fit perfectly with the region's core industries. This sector was created only because of private enterprises and was not connected in any way with the local authorities' actions. One of the key factors in creating it was low labour cost.

At present, the basic factors assuring the development and creation of international freight transport companies are:

- Factors connected with low labour costs,
- Knowledge of eastern and also western markets (companies usually provide transport services between these markets),
- Industry knowledge already mastered or being developed within family businesses, and informal information and knowledge exchanges between companies.

### **1.3 External and local regulations and network operations**

Freight transport is governed by various regulations that depend on the geographical scope of the services. Before 1989, on the basis of the decision of regional authorities, companies could offer their services only in a given region, usually in their own area and adjacent areas. Since 1989, companies could obtain licences to operate all over the country, and since 1992, they could obtain licences from the Ministry of Transport to operate internationally. The Ministry within the International Transport Office negotiates internationally the number of permits to enter specific countries. Entrepreneurs criticise the Ministry for weak coordination in winning international transport permits. Because of the high level of Polish company activity, there is a lack of permits; therefore, companies have to compete. They usually do it individually, which leads to situations in which they cannot utilise the full number of permits they obtain. They realise that cooperation in this field (exchanging and passing on permits) would be very rational, but there are not many national agreements that would make it possible.

The companies offering international transport services must master international transport regulations and the legal environments of their markets. Among important regulations are the ones concerning health and safety, describing the drivers' work, and regulations on environmental protection.

Banks are also among external institutions vital to transport companies. Due to the need to modernise equipment (resulting from environmental protection regulations), companies must invest in new equipment,

which increases the capital intensity and leads to over-dependence on one financial partner.

On the local level, transport companies depend on the decisions of local authorities in such areas as property and transport means taxes. Altogether, transport companies have to pay 35 various local and state taxes. The companies also participate in transport networks all over the country. For example, they take part in such joint ventures as a service network in Poland called Q-Service.

## 2. Internal structure of networks

According to the data from the Province Statistical Office from February 2003, there are 800 freight transport companies in the Nowy Sacz region. Around 100 of them operate internationally. These companies form strategic groups that differentiate themselves mainly by the geographic scope of their activities and the number of vehicles in their fleets.

### 2.1 Strategic groups

Among companies operating internationally, approximately 90% are small and medium-sized firms<sup>2</sup>. Typical **a small firm owns 1 to 3 vehicles (1 to 6 employees)**. These enterprises are considerably dependent on orders from bigger competitors who outsource instead of expand their own companies. There are no formal long-term contracts between the small companies and their bigger 'clients,' even if their co-operation can sometimes be long-term. In addition to subcontracting for bigger transport companies, each of these small firms tries to individually serve Polish enterprises (usually of medium size) or operate as a subcontractor for logistic centres.

**Medium-sized companies usually have 4 to 15 vehicles (7 to 25 employees)**. Their co-operation with bigger companies is very similar to that of small firms, but they compete frequently with them for orders from even bigger companies and logistic centres.

**The group of big companies comprises the firms that have approximately 25 vehicles** (Wokacz, Edelmüller, Pochwala, WP Trans, Polpak). They are now in the situation of a strategic stalemate. They are the companies managed by the entrepreneurs who in the mid 1990s were leaders, but now their businesses lost their dynamism, often because of not keeping up with changes in the sector. One could emphasise here technological changes that demand advanced information systems in order to provide *just-in-time* service. The above-mentioned companies want to preserve the status quo, do not plan to grow in size, and are less inclined than the leaders to expand through alliances with other companies. These companies try to secure orders from Polish and foreign companies as well as from logistic centres.

**Leaders, the companies that have over 40 vehicles (60 to 100 employees)** (ZET Transport, Olma, Olszewscy, Litwinski). They belong to the group of the biggest Polish transport firms and excel in revenue and profit dynamics rankings. They have regular customers (large Polish and international

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<sup>2</sup> Definitions of strategic groups: *small, medium-sized, big companies, and leaders* are introduced for the purpose of the analysis of this network of enterprises. In Poland a small company is a company employing 1-49 people, a medium-sized company employs 50-249 workers, and a big company employs 250 or more people. According to this definition, all companies within the network of international freight transport belong to the group of small and medium-sized companies. *Economic Activity Law*, "Dziennik Ustaw Rzeczypospolitej Polskiej," no. 101, Warsaw 1999.

companies) with whom they sign long-term contracts. Their biggest competitors are logistic centres that offer complex services. Therefore, the leaders also offer activities such as packaging in order to fully satisfy their customers. These companies concentrate on development through individual growth, development of technologies, and co-operation. They have also obtained ISO certificates. When competing abroad, they achieve even 150% more effectiveness due to lower labour costs. Internationally, they usually serve as a connection between Western Europe and former Soviet republics, that is Byelorussia, Ukraine, and Lithuania. Foreign companies are unwilling to offer transport services in these markets due to the lack of stability and lack of transparency of institutions. Moreover, there is a risk connected with corruption and red tape barriers. Big firms and leaders do not compete directly because they usually operate on the basis of long-term contracts with big companies (SGL Carbon, Lucas, Nowy Styl, Fiat from Bielsko-Biala). The lack of competition is caused not by the specialisation in transporting selected groups of freight, but by the development of regular ties with different customers. The competition, however, is strong between the small and medium-sized companies that do not have long-term contracts and fight for the orders from big companies (subcontracting) or direct orders from Polish and foreign companies.

## **2.2 Goals and advantages of networks**

Network relationships involve all freight transport companies dealing with international transport. Big companies, and especially the leaders, realise the need for co-operation in the industry if they want to compete in areas of the European Union. The basic goals of network relations between companies can be divided into:

### **A. Goals connected with the present operational activities and common processing of orders**

In case of big companies and leaders, the size of the company depends on the number of regular orders. In such a situation, co-operation with small and medium-sized companies is needed when unexpected additional orders crop up. Such co-operation allows the company to preserve its effective size and independence.

### **B. Goals connected with increasing competitiveness**

Such goals are connected with searching high-order advantages differing from advantages of low labour costs. Exchange of information, knowledge, and technologies serves the purpose of increasing the quality of customer service and is aimed at differentiation, because these companies (due to their size) cannot compete with western companies based on a volume strategy. Exchange is usually initiated by the leaders, such as ZET Transport. Leaders have stronger connections with the organizations that transfer knowledge and advice, for example with local chambers of commerce and business schools.

### **C. Goals connected with creating inter-organizational strategies**

Such goals include alliances, exchanges of entry permits, and joint applications for permits, as well as joint lobbying initiatives directed at local authorities (which set the tax rates for property and transport), marketing initiatives, and building institutions that streamline the administrative process.

## **3. Stages of creating the network, types of networks at various stages, examples of initiatives**

**Stage I. Local networks (competitors, suppliers, customers, friends, and family).** At the beginning of the freight transport sector, the vital network relationships were those between the transport enterprises and construction companies, the companies or individuals importing the transport equipment, including garages and families. They latter helped the entrepreneurs to acquire initial capital.

**Stage II. External networks.** As leading companies were entering foreign markets, their ties with local infrastructure were weakened and the need for new market infrastructure was growing. This new infrastructure was created by the network of suppliers. International freight transport has its specific nature—the companies must provide diffused (not locally concentrated) informational and technical infrastructure, including service networks, petrol suppliers, and opportunities for exchanging information with partners within various foreign markets. This calls for the development of external networks in comparison to local clusters. Industry connections all over the country are also very important. They usually consist of creating lobbying and business initiatives such as joint service networks (Q-Service) and associations dealing with the exchange of international permits or organising joint applications for such permits (Silesia Association of International Transport). Also worthy of noting are the institutions that exchange outsourcing services (Transport Exchange). External networks, developed especially by big companies and leaders are a source of information, knowledge, and technology for local clusters.

**Stage III. Operational networks.** When companies divide into strategic groups, appropriate operational networks between these groups originate on the basis of the joint processing of orders. The next step is made by the networks that rely on exchanging information, knowledge, and know-how. These networks become a starting point for new enterprises (start-ups) and for developing existing initiatives.

**Stage IV. Networks focusing on increasing competitiveness (networks with competitive edge).** The same development paths include the adjustment of partners in chosen markets, satisfying the needs of their customer, or using a comparable infrastructure. This infrastructure comprises using common information systems to coordinate operational activities, and also renewing equipment—smaller partners or start-ups purchase second-hand equipment from the leaders who often buy new equipment. Therefore, we can talk about compatible technologies. Common development paths are part of the emerging strategies, created intuitively, and the result of co-operation in some areas. The exchange of information, knowledge, and technologies usually takes the form of informal relations between entrepreneurs. It happens not only between big companies and leaders, but also among big and small entities. The latter treat the former as the source of know-how for issues such as methods of acquiring capital for modernising vehicle fleets and obtaining auxiliary funds.

**Stage V. Networks focusing on inter-organizational strategies (strategic networks).** Conscious and planned networks focused on inter-organizational strategies concern the initiatives of alliances and other forms of co-operation, leading to economies of scale and preserving the flexibility of smaller companies. In this case, the role of local organizations is noticeable, especially the roles of the chambers of commerce as intermediaries and the institutions forming the forums for initiatives.

Leaders and big companies have developed strong ties with local business organizations. They are active in the **Sadecko-Podhalanska Chamber of Commerce**. They also maintain contact with a business school, in which they educate a large group of their lower personnel. The President of the Chamber, Dr. Krzysztof Pawlowski, is also the Rector of the **Graduate School of Business – National Louis University (WSB-NLU)**. The managers of these companies attend post-graduate studies at WSB-NLU. The Association of Transport Entrepreneurs, whose members are mainly international freight transport companies, is affiliated to the Chamber. Common initiatives undertaken by the Association include administrative improvements (SAD form selling point) and the beginnings of co-operation in exchange for foreign entry permits and training. The Association also organises promotional activities during fares and conferences and sponsors publications. Formal initiatives in creating inter-organizational strategies have been inspired by leaders since the 1990s. A leading role in the association is currently played by Jan Zalubski, owner of ZET Transport. We should point out the fact that the first common initiatives were taken by the owners of big companies, especially by Jerzy Edelmüller (Edelmüller Company).

**4. Strategic groups’ interests and involvement in various types of networks**

Particular strategic groups show different levels of involvement and interest in participation in the types of networks characterised above (Table 1).

Table 1. Strategic groups and their levels of interest and involvement in different types of networks

Group of firms	Small	Medium-sized	Big	Leaders
Hierarchy of involvement and interest	Operational	Operational	External	External
	External	External	Operational	Competitive edge
	Local	Competitive edge	Competitive edge	Strategic
	Competitive edge	Local	Strategic	Operational
	Strategic	Strategic	Local	Local

**Source: Authors’ research**

For **small companies**, the most important issues are the operational and external networks. What really matters in their functioning is the local relationships with family, acquaintances, and friends, and with local partners and customers. More elaborate networks, namely focusing on building competitive edge and inter-organizational strategies, are not very important for them.

**Medium-sized companies** observe the increase in importance of competitive edge over local relations. These companies are intended to develop and search for sources of increasing their competitive edge over other companies, especially when they deal with leaders.

**Big companies**, as we already mentioned, operate abroad independently (importance of external networks) and find operational partners for specific projects (operational networks). These companies are

concerned with maintaining the profitability and status quo; they do not bother with expansion. Therefore, they put less emphasis on initiatives connected with increasing their competitive edge than the leaders.

The **leaders** accentuate the strategic aspects of activities within the network and the networks focusing on building competitive edge.

## **5. Economic and social status of network participants**

Within freight transport, the group of entrepreneurs operating internationally enjoys a higher economic and social status than the companies operating in regional or domestic markets. This is also connected with their position in public life, namely their strong representation and prestige in the local chambers of commerce, as well as with their strong position in national agreements and industry associations. Due to the economic importance of this sector to the local economy (taxes, employment), transport entrepreneurs are important partners for the local authorities, and have some influence on space management plans.

The participants in the networks are convinced that the *image of the transport entrepreneur* exists and that it is recognised and respected by the county inhabitants. The image is composed of the following elements: private enterprise, independence, credibility, reliability, loyalty, and the ability to co-operate.

Jan Zalubski, aged 36, is co-owner (with his brother, Jozef) of ZET transport—one of the leading Polish transport companies excelling in revenue, and profit, as well as the variety of services they offer. At present, he is the most active initiator of networks focusing on developing inter-organizational strategies and formal co-operation. ZET Transport is a continuation of a local transport company run by his father. Jan Zalubski graduated from Krakow Politechnical School. While studying he started to run the company.

Jerzy Edelmüller, the over 50-year-old owner of the Edelmüller Company, is the initiator of the Transport Association in the local chamber of commerce. At present, he is more active in national industry associations. He graduated from a technical high school.

## **6. Conclusions – network development perspectives**

Network companies evolve together and increase their competitiveness due to their common operational activities and their exchange of information, knowledge, and technologies. All these activities are predominantly informal. The companies adapt to the changes in the environment and simultaneously adapt their individual resources to the needs of co-operation within the network. Geographic proximity, familiarity with other participants, and economic interest form the basis of common activities, trust, and conviction concerning the realisation of credible commitments within networks. The initiatives directed at conscious creation of inter-organizational strategies (strategic networks) are still in the initial phase. According to Jan Zalubski, survival and maintaining competitiveness in the European Union may depend on them.

## **2. Building Network Relationships among Plastic Companies in Tarnow County: Tarnow Industrial Cluster (Poland)**

Jacek Gancarczyk  
Marta Gancarczyk

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### **1. Introduction**

This case describes the process of building the network relationships between plastic companies in Tarnow County. The process is by no means finished, but we decided to incorporate this case into our work on small and medium-sized enterprise (SME) networks because it can be treated as one of the basic models of network relationships in Poland. The previous two cases were:

- An SME network created by a group of small companies under independent and spontaneous circumstances, resulting from the spatial proximity and common origins of the whole industry (international transport companies in Nowy Sacz County),
- A network created during a big company restructuring process, the result of an employee *spin-off*. This case is based on personal contacts established while working for the big company, a common organizational culture, and the knowledge gained in the company (computer and office supply producers in the Nowy Sacz County).

Both cases are typical in Poland. The first case depicts the entrepreneurial spirit of Polish people, who do not need any external stimulus and are capable of co-operating among small and medium-sized enterprises that remain independent business entities. The second case shows the type of relationships that generally can be seen as a result of the common restructuring process taking place both in state-owned and private companies. The process led to the employee *spin-off*, which came from either the parent company or by the former workers from scratch. The network relationships resulting from the restructuring process in the second half of the 1990s are essential to understanding the economic processes taking place in Poland.

The third case also has some universal meaning. Its value consists in the economic and social transformation (reaching the market economy) as in the previous cases, as well as in its connection with the transformation of state institutions and local and regional authorities, as well as self-governments (decentralisation of state authorities and administrative reform). The network of plastic industry companies was created as a formal, joint initiative between county authorities and companies. The circumstances for building this network resulted not only from the need for strengthening the competitiveness of the companies, but also from the goals of the county, which continues to see the plastic industry as a major development opportunity for itself.

## **2. External conditions of the network**

### **2.1 Polish authorities and administration system reform**

In 1999, the three-staged system of administrative division was introduced. It divided Poland into regions, counties, and communities. The change was closely connected with the state authority reform consisting of de-centralisation and introducing the subsidiary principle, while preserving the unitary character of the state. The regional and local authorities are now responsible for managing their present functions as well as planning their territorial units' development. Self-governing regions, as the largest administrative units, have a special role to play. They are responsible for creating the development strategy in cooperation with smaller self-government units, especially with the second stage units—the county authorities.

De-centralisation brought positive effects in the field of local community activation. But the main idea lies in the de-centralisation of the tasks, not the public finances, which are still centralised. The basis of financing is the re-distribution of the central budget means. The shortage problem of an area's own means concerns mainly the counties and self-governing regions.

The reform created 16 new large provinces (self-governing regions) in place of 49 small, weak regions functioning before 1999. The new system does not have such dramatic differences in regional development as before. Moreover, the large regions have bigger potential, influenced by the existence of central capitals for each region. In the previous system, only several regions had large agglomerations. It must also be pointed out that the former system restricted regional community development around strong city centres, which could lead to a stronger identity and independence of a region from the government centre. The biggest agglomerations (such as Warszawa, Krakow, Poznan, Lodz, Gdansk, Katowice) had the status of city regions, but were restricted to the cities themselves and adjacent areas only.

The reform created strong regions, but at the same time lowered the importance of smaller administrative centres such as Nowy Sacz and Tarnow (they were both the capitals of former regions), which now belong to the Malopolska region, with its capital in Krakow. Those two cities, deprived of their administrative functions were and still are afraid of losing their importance. Nowy Sacz and Tarnow are now the centres of counties and are seen as the most dynamically developing areas in the whole region. At the same time, both cities secured for themselves the status of the city counties, that is, the separation of the city from the rest of the county for which they form a centre. Therefore, we can talk of Tarnow County as consisting of the city county (Tarnow) and the country county (adjacent counties). This complicated administration system resulted more from reasons of prestige rather than from social or economic conditions, and now is seen as an obstacle for the compact development of the city and the county. The city and the country county are now trying to introduce some economic and social initiatives to overcome the above-mentioned obstacle. One of them is the initiative of building network relationships in order to increase the competitiveness of plastic industry companies.

Former region capitals obtained specific compensation from the government in the form of state-financed higher-education vocational schools, as well as instruments to support entrepreneurs, including special economic zones.

### **2.2 Principles of supporting small and medium-sized enterprises by local self-governments**

The development strategies of most regions are closely connected with the dynamics of small and medium-sized companies, therefore the support for these groups of companies is treated as one of the tasks in the entrepreneurial field for self-governments. Support for SMEs consists of creating a good environment for



economic activity, and concentrating on improvements in material and institutional infrastructure.

Based on the present legislative regulations, we can indicate the following fields and support means for SMEs used by local self-governments:

**Table 1. Fields and means of support for SMEs used by local self-governments**

<b>Fields</b>	<b>Means</b>
<b>Financing</b>	Tax reductions, credit warranties for units taking up preferred types of activities, input into SMEs, creating guarantee funds, entrepreneurial incubators, technological parks, local government orders, loans for technological progress projects, preferential instruments for entrepreneurs in the bill on employment protection, and executory documents
<b>Material infrastructure</b>	Facilitating realty purchases or hires, renting or building new productions, commerce and service facilities, building business infrastructure: a high level of technical infrastructure (roads, communication, sewerage plants, refuse utilisation, media)
<b>R&amp;D</b>	Establishing research and development centres stimulating innovative processes in small companies
<b>Limiting bureaucracy</b>	Applying organised and carefully thought out policies towards investors, organising institutions' work in accordance with complex service principles
<b>Promotion</b>	Promotional activities (fairs, exhibitions, conferences)
<b>Institutional infrastructure (development of environment)</b>	Establishing institutions stimulating economic initiatives, such as public-private partnerships and societies and regional chambers of commerce, as well as institutions supporting initiatives and regional and local development agencies

**Source: On the basis of A. Rybinska, A. Tokaj-Krzewska (ed). Report on the state of small and medium-sized companies in Poland in 2001-2002. Polish Enterprise Development Foundation, Warszawa, 2003, p.157.**

The latest regulations in financing are comprised in the bill on financial support for investments accepted in 2002<sup>3</sup>, and the bill on prerequisites of using and supervising public help for entrepreneurs accepted in 2002<sup>4</sup>. Passing both bills was necessary in order to bring public help regulations closer to international law, especially to common law.

The presently emerging approach to entrepreneurial support in Europe and in Poland is based on identifying and supporting clusters, that is, geographical agglomerations of interrelated companies operating in one industry or related industries, in order to develop innovative networks<sup>5</sup> and innovative systems. Territorial units see their chance for development in creating network relationships of companies in order to create

<sup>3</sup> The bill of 20.03.2002 on financial support for investments

<sup>4</sup> The bill of 27.07.2003 on prerequisites of using and supervising public help for entrepreneurs (Dz.U. no 02.141.1177.) The bill replaced the former bill of 30.06.2000 on prerequisites of using and supervising public help for entrepreneurs – Dz.U. 2000, no 60, position 704.

<sup>5</sup> We talk of innovative network when the companies start formal cooperation for innovation and development. When the network receives organised support from other institutions, we can talk of an innovative system in that region. See *Clusters in Europe*, Observatory of European SMEs, European Commission, Brussels, 2002)

innovations, and in organising environment institution support for the operations of innovative company networks (so called clustering). SMEs must often be supported together with being made to realise the need for support because not many entrepreneurs realise the need for them to innovate and develop. Public-private partnership is very often an organizational form inspiring innovative networks, that is, the formal cooperation of companies in innovative projects. This partnership relies on joining the resources of private companies, financial institutions, local self-governments, and non-government organizations.

### **2.3 Social and economic conditions of Tarnow County<sup>6</sup>**

#### **The city of Tarnow – the Tarnow City County**

Tarnow has now about 120,000 inhabitants. Since 1997, the number of its citizens has not changed. Tarnow is an important place with chemical, electromechanical, and glass industries. It also has important food manufacturing plants. According to the REGON identification number, there are 9,910 business units, with a private industry share of 98%.

The biggest enterprises in the city are: Zakłady Azotowe in Tarnow Moscice (producing chemical produce as the country leader); Zakłady Mechaniczne TARNOW (producing electro-mechanical goods and weapons); Electrical Engines Factory TAMEL S.A.; Meat Plant MIESTAR S.A. (belonging to the capital group FARM FOOD); MLEKTAR S.A. (dairy products); Glass Works BLOWEX S.A.; and STALPRODUKT S.A.

Private entrepreneurs have monopolised the whole field of services, commerce, and restaurants. Many companies continue their family traditions.

Among many institutions operating in the business environment, one could mention the Chamber of Commerce and Industry with 140 members and the Chamber of Craftsmen and Tradesmen and Small and Medium Enterprises (combining six corporations—Tarnow Corporation of Various Crafts now has 236 craftworks).

#### **Tarnow Country County**

The county has 190,000 inhabitants. The farms are private, and their average area is only 3.2 hectares. Most agriculture is not intensive but focused on ecological food production. About 95% of business units are private. They are mainly craftworks, some with long traditions—blacksmiths, embroiderers, woodworkers, and food-processing companies. The glass industry also has a long tradition of producing all kinds of high-quality glass.

Tarnow County is conservatively oriented, so the situation is similar to that in Nowy Sacz. Tarnow is an important centre for the Roman Catholic church, which has its diocese there. The church organizational division is different from the state division. The city has also one of the biggest seminaries in Poland.

### **2.4 The plastic industry in Poland – general characteristics**

Poland is not a major producer of plastic (0.85% of the global production), but this industry has witnessed a very high pace of development since 1993, outstanding for even the Polish economy. The total production volume has tripled in the last 12 years, and now amounts to 2 million tonnes per annum. The industry's dynamics are created by small and medium-sized enterprises that appeared together with the introduction of

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<sup>6</sup> The *Tarnow County* term comprises the area of both the city and the country counties (authors).

the market economy and could easily compete due to their low labour costs. The industry has low capital requirements; therefore, production can be started even in a garage and good quality can still be obtained. In 2001, the gum production and plastic industry included 15,216 enterprises. It is a fragmented industry. Although in some segments there are usually groups of several leading enterprises, 93% of all companies in this sector are small and medium-sized enterprises. The dynamic production development is accompanied by the growing demand for plastic. The demand exceeds the domestic supply by 40-199%, depending on the raw material. Therefore, we have an unfavourable balance in our plastic foreign exchange, both in finished products and in raw materials. Another easily noticeable problem is the too slow transition of small companies to new generation materials—traditional materials are commonly used. This is due to the price, but also because little information flows to SMEs concerning new technologies. The industry is represented by the nation-wide Plastic Producers Association.

## **2.5 Plastic industry in the county – causes of origin**

The cluster of plastic producers was formed around one big company—Zakłady Azotowe Tarnów – Moscice (ZA), which was set up in 1927. Therefore, we can talk of a long tradition of developing knowledge of the chemical and plastic industry in Poland. Zakłady Azotowe is a leader of the plastic sector, as a producer of both plastic and plastic products, especially those used in the construction industry. In the 1990s, ZA was considerably restructured into a capital group consisting of several sister companies<sup>7</sup>. The company obtained ISO 9001 certificates and 14001 certificates in environmental protection. The latter helped the company eradicate its name from the top 80 list of the most environmentally unfriendly companies in Poland. In this way, several partly independent units were created around the vertically integrated firm. Apart from the spin-off on the basis of the parent company, the county witnessed employee spin-offs, consisting of former employees that established their own businesses. In the county, apart from the capital group ZA Tarnów-Moscice, there are 12 independent small enterprises employing up to 10 people (only two of them employ more than 10 people). Some of them are the result of the employee spin-offs. Others were created independently of ZA, and their existence in the geographical proximity of ZA was justified by the possibility of receiving supplies of polyamides and torflens, their knowledge of the plastic market obtained through ZA personnel, and the possibility of using some ZA services (for example using the laboratory or the tool shop). All small plastic companies were established in the beginning of the 1990s, just after the transition to the market economy. ZA has suppliers and customers all over the country. Small companies supply various products—from toys and small plastic objects to parts for kitchen appliances, the construction industry, the automobile industry, and electrical engines. These companies are now ordering materials from outside the county, so ZA is losing its importance as a supplier of raw materials. ZA is now developing the production of a new generation of plastic, while small companies still use the traditional materials. Outside the county, there are also main customers of small companies.

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<sup>7</sup> The second stage of restructuring was started in 2002.

See the ZA Tarnów-Moscice's Web site. (<http://www.moscice.tarnow.opoka.org.pl/>)

### **3. Internal structure of the network**

#### **3.1 Stages of creating the network and examples of initiatives**

Networks are created as a result of evolution or are established in a planned way. In the case of plastic producers, we will focus on the latter situation.

##### **I. Planning**

The territorial self-government, searching for a development strategy for the county after Tarnow's loss of its regional capital status, initiated the formal network of companies and environment institutions. The strategy was closely tied with the development of the plastic industry. The self-government took into account the traditions of this industry in the county as well as its dynamic development throughout country. The conceptual basis of the strategy was the knowledge of the principles of company cluster fluctuation from one or related sectors. Network relationships between companies and environment organizations are the determinant of cluster competitiveness. The efforts were focused mainly on creating the relationships between small enterprises participating in a county cluster. The idea of improving the competitiveness of the companies through clustering benefited a lot from the experience of one of the initiators, who gained his knowledge of clustering in Western Europe. Plastic processing companies and Tarnow County County communities were invited to co-operate. At the beginning of this enterprise, there were only two active companies.

##### **II. Formalization**

Before establishing a formal network, the relationships within the plastic industry were informal and resulted mainly from the geographical proximity and personal acquaintances of entrepreneurs.

Within the group of small companies they:

- Exchanged information on sources of supplies and the market,
- Exchanged personnel,
- Jointly purchased materials.

Between small companies and ZA, they:

- Exchange information,
- Purchased materials from the big supplier,
- Used the tool shop of the big company.

The above activities were rather dispersed and they were not common to all the companies under discussion. Some selected forms of relationships with other companies (two- or three-party circles) that were not as intense or had no regular interaction.

In 1999, the organizational framework for building the network of plastic processing companies and environment organizations was created. The city of Tarnow, all counties of the Tarnow County, and two enterprises (Tarnokop and Tarel) established a joint-stock company called Tarnowski Klaster Przemys Owy Plastikowa Dolina (Tarnow Industrial Cluster *Plastic Valley*). The majority of shares belong to the city of

Tarnow (97% of votes on the AGM). It should be noted that this initiative is modelled after similar enterprises of supporting industrial clusters in developed countries<sup>8</sup>.

The following goals of the Tarnow Cluster activities were formulated:

- Provide technical, financial, legal, and organizational help for network companies,
- Create a so-called *one-stop-shops* for investors (aiming at overcoming the bureaucratic barriers),
- Lease and manage real estate provided by the local government,
- Help companies in purchasing equipment and production materials,
- Organise specialist training,
- Help promote and market activities.

There are three experts employed by the cluster. Their work consists of making sure the above-mentioned goals are reached. It was assumed that the technical, financial, legal, and organizational help would be partly paid.

Gradually, other small companies from the plastic processing industry joined the network. This was not an easy process, because the companies preferred to maintain their anonymity and not to reveal their customers, the kind of technologies they used, or the patterns of products. Finally, this lack of trust was at least partly overcome. Meetings and open discussions as well as individual conversations between cluster workers and companies yielded some positive results, such as a jointly run Internet site. Not all entrepreneurs decided to present their companies there. From 12 small companies, nine were present on the Tarnow Industrial Cluster site, featuring their addresses, basic products, main customers, and the date of establishment<sup>9</sup>. This initiative seems quite small and unimportant, but it had an essential conscience dimension and purpose—it allowed access, it was a declaration of joining the network, and it served as an agreement to treat the companies as part of *Plastic Valley*. The initiative was also a way out of the isolation and a way of establishing some contacts with other producers and the self-government creating the network.

The local government gave this initiative a media dimension. For some people, the association of the cluster with Silicon Valley was a bit too pompous, and at the beginning they treated it with a lot of reserve, as a specific political gesture of local authorities. However, in time, due to the engagement of the companies that pioneered this enterprise, and to the engagement of the cluster workers, the network of firms and environment organizations created the opportunity to obtain added value in the county. This was reached in several stages of activities presented below.

### **III. Building relationships with related industries and knowledge transfer institutions**

The aim of this stage was to convince the companies to use firms operating locally in related industries and creating the foundations of such possibilities. Many companies creating the infrastructure for ZA are located in the county. The aim of the cluster was to encourage the group of small enterprises to use the resources. The cluster personnel organised several meetings, first individually with companies that were potential suppliers, and then with cluster companies and potential suppliers. In this way, the following organizations from **related industries** were incorporated into the network:

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<sup>8</sup> See *Clusters in Europe*, op. cit.

<sup>9</sup> Those nine companies are: Dargum, Elmark, Eromet, Grawtim, Lad-met, Packet, ARKADA, Wytworkia Wyrobów Gumowych, and Zacisk.

- **Zakłady Azotowe in Tarnow (ZA) as a supplier of plastic (construction)**
- **Numerous tool works that originated from the restructuring process of another big company, Zakłady Mechaniczne Tarnow, as a supplier of injection forms**
- **The Research Institute of Plastic in ZA**

The following **institutions of education and knowledge transfer** were incorporated:

- **State Higher Vocational School in Tarnow**
- **Krakow Polytechnics**
- **Chemical Secondary Vocational School in Tarnow**

In order to create vertical relationships, there was also a project of production flow based on the principles of suppliers and customers, between two companies in the plastic processing industry.

#### **IV. Building institutional mechanisms to support and enlarge the network**

The next stage witnessed active support of self-government authorities, which together with the cluster formed a kind of local lobby for plastic processing industry development. At this point, the Polish government supported the ideas by creating a special economic zone, and the regional authorities created the sub-zone of Krakow technological Park for plastic sector investments. Local authorities provided support instruments such as access to the infrastructure.

#### **V. Building relationships between the cluster and the environment**

In order to extend the knowledge and experience, the cluster cooperated internationally with other European clusters also operating in the plastic industry:

- **AC Styria (Austria)**
- **Holzcluster Styria**
- **Kunststoffcluster (Austria)**
- **Plastic Vallee – Rhone Alpes (France)**
- **Aluminium Riiket – Skaraborg (Sweden)**
- **Clusters from Venetto (Italy)**

### **3.2 Aims and advantages of the network**

**The current structure of the network is as follows:**

- 17 production companies (12 plastic producers, 1 supplier of plastic materials, and 4 injection form producers),
- 4 distributing companies,
- 5 service companies (repair and conservation),
- 2 laboratories,
- 3 higher schools,
- 1 secondary school,
- 2 supporting institutions (territorial self-government, ZA Tarnow-Moscice).

**From the entrepreneurs' perspective**, the network provides them with the following **benefits**:

- Joint marketing and image building (at present the cluster is a nationally recognisable undertaking due to the information in the media and promotional activities of the cluster personnel during seminars and conferences),
- Possibility of cooperation in research and development,
- Information and knowledge transfer and exchange,
- Access to specialists,
- Access to cheap industrial facilities,
- Financial instruments for investments such as tax reductions or exemptions,
- Satisfaction from being in a group of co-operating companies, a way out of isolation,
- Creating a plastic producer and processor company lobby.

**From the local authorities' perspective, the network offers the following advantages:**

- Creating a programme and organizational foundations for the realisation of county development strategies based on promoting the plastic industry,
- Gathering both city and country counties for a joint initiative,
- Increasing support and acknowledgement from entrepreneurs.

**To-date achievements of the cooperation within the network are presented below:**

- Preserving the number of companies and employees during the period of recession in Poland,
- Creating a *one-stop-shop* in administrative institutions,
- Building material and institutional infrastructure for innovation and development,
- Securing financial instruments (economic zone, technological park, loan guarantee fund),
- Local suppliers and a related industry base,
- Building a strong image.

#### **4. Economic and social status of network participants**

##### **4.1 Network influence on economic status of participants**

Entrepreneurs obtain good economic status and represent the middle class in the local community. However, it is difficult to assess the influence of the network on the increase of companies' competitiveness and on the increase of their economic effectiveness. As a positive result, one could see the fact that the number and the size of companies did not change during the period of recession since 1999. Therefore, the economic effect can be described as the support of the companies, which enabled them to survive in hard times. The participation in the network cannot be treated as the decisive survival factor, but it has had some importance in the securing of cheap and easily accessible suppliers from related industries, which improved their competitive stance.

##### **4.2 Network influence on the social status of participants**

Through the creation of the network, the development of the county was strongly tied to the development of the plastic industry, which increased the importance of the group of small enterprises in local institutions. So far, chemical and plastic industries had been associated exclusively with the activities of ZA.

### **4.3 Characteristics of entrepreneurs**

Small enterprises are unwilling to reveal certain data concerning their activities. Tarnow Cluster employees complain about the unwillingness to share information about them and even describe this phenomenon as mistrust towards them (*...they do not even want to let us in...*). At the same time, one can surely talk of a similar system of values among the entrepreneurs. They value the family and consider traditional, catholic religious life as very important. They put emphasis on religious practices such as special gatherings and rituals. Business life does not interfere with this sphere of life, however. Most entrepreneurs are professionally educated, but in many cases this education was stopped at the secondary level. Most of them have run their companies for about 10 years, so their enterprises are now entering the maturity stage and, in many cases, they focus not on dynamic growth but on survival and maintaining profitability. The entrepreneurs are mainly middle-aged people (40-50 years old).

Each enterprise specializes in a different assortment and has different customers; therefore, we can say that they do not compete directly. The entrepreneurs are characterised by strong individualism and independence in running their businesses. This independence is strengthened by the structure of customers. The companies usually concentrate on one product, but due to flexible technology, they can adapt its parameters to the needs of various customers, which allows them to avoid the over-dependence on one major customer. This refers both to companies supplying parts for concentrated industries and big companies, for example from kitchen appliance industry, the automobile industry, electric engines, and construction, as well as final products and fragmented industries with no domination of big companies (toys, cassettes, buttons). On the other hand, market fragmentation creates transaction costs caused by many transactions and the need to search for new markets.

Entrepreneurs value their status because of its financial and organizational independence. The cooperation is seen by them mainly in business categories and is based on economic determinants. Therefore, the cluster promotes mainly the economic argumentation for building cooperational relationships. Functioning in the same plastic sector, companies use similar raw materials and suppliers, so they can share their knowledge of the related industries and suppliers and use them together. This basic form of cooperation, within the joint use of related industries, can become a starting point for innovative enterprises, such as introducing new raw materials and products. The problem lies in the different technological levels of companies. Usually, companies working for big customers, offering complex products, must meet higher standards than the producers of simple final products or parts for less complicated products.

## **5. Summary—outlook for network development**

The network had reached a stage in which a common infrastructure of suppliers and gaining knowledge and experience was created. Joint enterprises in innovation have not appeared yet, so we still cannot discuss innovative networks. For the time being, the institutional ground and material and financial infrastructure have been prepared, and they can be used later for innovation and development.

This system will not work without establishing the essential basis of an innovative network, which consists of formal cooperation of companies in innovation and development. In this case, the most important factor is the activity of the companies themselves. However, as we observed in the behaviour of entrepreneurs, it will be necessary to help them realise the need for activities focused on innovations.



The experience so far has indicated the following **barriers** in building networks:

- Mistrust of entrepreneurs and a strong need for independent operations, without agreeing on strategies with other business units,
- Lack of awareness that cooperation is vital for innovation and development,
- Unwillingness to buy services in the cluster or to invest in innovation,
- Various technological levels of companies,
- Difficulties transferring technology from research institutions, which is caused by low flexibility of scientists from co-operating higher education institutions.

### 3. A Network of Computer Companies in Nowy Sacz County (Poland)

Jacek Gancarczyk  
Marta Gancarczyk

#### 1. Introduction

This case study describes the process of creating relationships and a network as a result of the emergence, development, and restructuring of a big company—Optimus S.A. The network is a result of an employee spin-off, and is based on personal relations built in Optimus, on its common organizational structure and on the knowledge gained there.

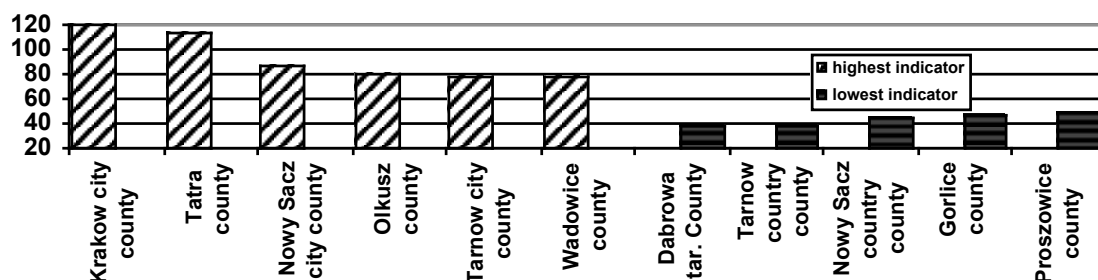
This case study depicts the type of relations that can be the basis for generalisation, because it is connected with the widespread restructuring process of both state-run and private companies. It led to the emergence of employee spin-offs, either on the basis of a parent company (derivative spin-off) or created by former employees from scratch (original spin-off). Network relationships, the result of transformational changes in the second half of the 1990s, are essential if we want to understand economic processes in Poland.

#### 2. External conditions of created networks

##### 2.1 Nowy Sacz city and country counties<sup>10</sup>

The analysis of spatial development differences shows that the Nowy Sacz City County and its neighbourhoods are the most dynamically developing regions with one of the highest private enterprise indicators. But the adjacent country region, on the other hand, has one of the lowest enterprise indicators, which shows considerable differences in development of the analysed area.

Figure 1. Counties of the highest and the lowest enterprise indicators in the Malopolska region.



Source: on the basis of The Malopolska Region Strategy

<sup>10</sup> We talk of Nowy Sacz County both to describe the Nowy Sacz City County (the city of Nowy Sacz) and the Nowy Sacz Country County (the communities surrounding the city of Nowy Sacz). Nowy Sacz County is a historically and economically integrated area around Nowy Sacz. It comprises 17 communities: 2 city communities (Grybow, Nowy Sacz), 4 town and country communities (Krynica, Muszyna, Piwniczna, Stary Sacz), 11 country communities (Chelmiec, Grodek nad Dunajcem, Grybow, Kamionka Wielka, Korzenna, Labowa, Lacko, Lososina Dolna, Nawojowa, Podegrodzie, Rytro). The area of Nowy Sacz County has 1607 square kilometres, which accounts for 11% of the whole Malopolska region. See the *Report on the State of Nowy Sacz Country County*, Zarzad Powiatu Nowosadeckiego, Nowy Sacz, 2002.

## **2.2 Territorial self-government**

The level of self-governing and public activity is very high. Back in the communist era, in the 1960s, the country was chosen for the Nowy Sącz Experiment, consisting of delegating more power and responsibilities to the local authorities. Later, in the transformation period, another pilot programme was initiated here. This time, it was connected with the administrative reform and with the de-centralisation of power. In 1994 to 1996, under the auspices of Nowy Sącz city authorities, the so-called *Nowy Sącz Initiative* was created, which in 1997 led to the establishing of Nowy Sącz Public Services Zone. The Nowy Sącz Zone was one of nine in the pilot project, which aimed at gaining experience introducing counties through realisation of tasks given by the government administration. One of the zone initiatives was the State Higher Vocational School in Nowy Sącz and the Nowy Sącz Club, which associates units and organizations interested in stimulating small and medium-sized enterprise (SME) development. The club created the first enterprise incubator in Nowy Sącz.

In 1997, zone authorities and the Nowy Sącz Club initiated work on Nowy Sącz country economic development, which was finalised by the Nowy Sącz Economic Council, the body that is presently continuing this work. The council is made up of the representatives of the territorial and economic self-government, local companies, and non-government organizations. The programme puts special emphasis on the development of tourism, education, and small and medium-sized enterprises. The programme's entrepreneurial goals are the following: developing education in entrepreneurship, promoting companies through publishing a company register, building an integrated system of enterprise support based on the existing banks, for example in the form of a local development foundation.

The programme was accepted in 1999 by the joint resolution of the Nowy Sącz Country County and the Nowy Sącz City County. This initiative was therefore important for the integration of various activities undertaken by different subjects interested in Nowy Sącz country development. At present, using the Malopolska Region contract resources, the city of Nowy Sącz is creating a new enterprise incubator (the first project was unfortunately unsuccessful). The project was developed partly by WSB-NLU, which has become a major expert support *think-tank* for region authorities and for other regional institutions.

The political life is dominated by conservative thinking and groups connected with the Catholic Church. The church has a strong influence, visible both in the system of values as well as in traditional religious practices. Family ties are also strong and quite often they are extended on business grounds.

## **2.3 Business self-government**

- The Nowy Sącz Chamber of Commerce was established in 1990. It now has about 120 members, with only one branch group – Nowy Sącz Association of Transport Providers. The chamber also organised the Business Support Centre in 1994-1996. The Chamber is also a member of the National System of Services for Small and Medium-sized Enterprises run by the Polish agency for Enterprise Development.
- Merchants Congregation – County Association of Private Commerce and Services
- Craftsmen Chamber

## **2.4 Higher education**

- Nowy Sącz School of Business – National Louis University (WSB-NLU) in Nowy Sącz, educating around 3,800 students in management and marketing, information technologies, and political science.

- State Higher Vocational School (PWSZ) offering economic and teacher training courses and English philology.
- Nowy Sacz Higher Vocational School (SWSZ) educating future engineers and tourist industry specialist.

## 2.5 Other organizations in the business environment

- Enterprise Support Centre in Nowy Sacz
- Nowy Sacz Promotion and Development Centre in the Town Hall.
- Business units offering business services. The present offer of accountants, advertising agencies, tax and financial advisors, brokers, trainers, marketing and promotion specialists, auditors, and consultants is satisfactory for companies<sup>11</sup>.
- Regional Employment Office in Nowy Sacz offering loans for starting businesses and free training helpful for changing qualifications and starting one's own business.
- Banks. There are ten branches of private and state banks. There are also 12 co-operative banks operating on the county level.

## 3. Industry

From 1994 to 1998, the number of business units remained on the same level (around 15,000 according to REGON data). However, there were considerable changes in the sector structure. Around 30% of the businesses operated in commerce and reparations. Lower numbers of companies operated in the construction industry, production, and transport and storage. In this period, there was a considerable decrease (25%) in production activity and in hotels and restaurants connected with tourism. The highest growth dynamics were reached by services (22.2%), transport and storage (14.9%), and the construction industry (11.5%)<sup>12</sup>.

In 2002, the Nowy Sacz country had 17,221 business units. It should be noticed that the number of enterprises increased during the period of recession, that is, in the period of 1999-2002<sup>13</sup>. It all points to the entrepreneurial activities of the inhabitants of the region in the time of mass redundancies from ZNTK (Railway Carriage Reparation Works)<sup>14</sup>, Nowomag (Nowy Sacz Mining Machinery Works), Optimus, Konspol, and SGL Carbon (producer of carbon electrodes).

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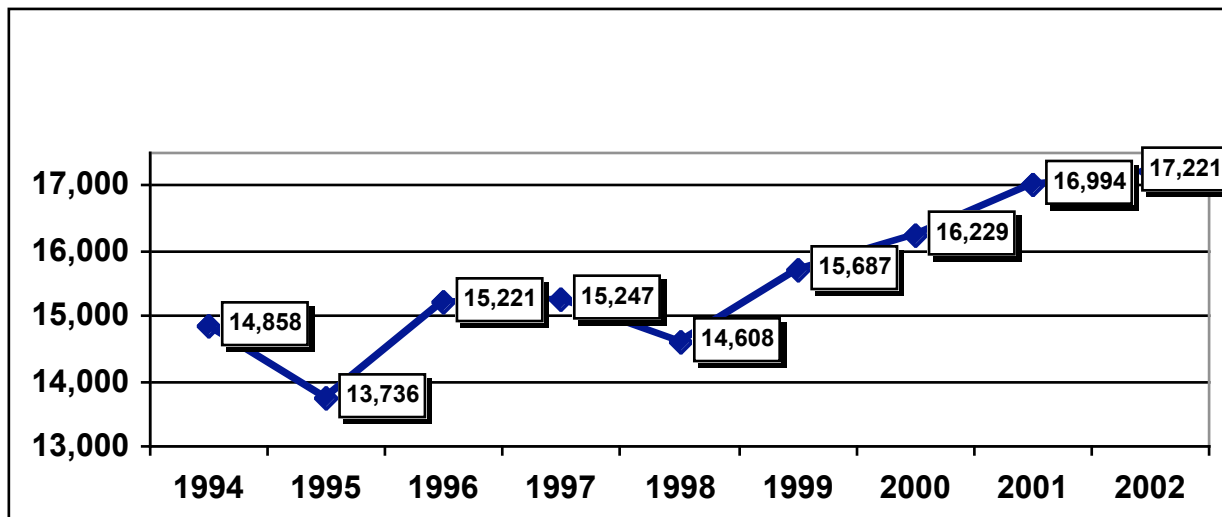
<sup>11</sup> M. Remi, W. Werber, *Supply Offer Versus Demand for Professional Services in Malopolska*, "Finanse, Bankowosc, Ubezpieczenia," 2001, no.3, pp.233-239.

<sup>12</sup> *Economic Development of the Nowy Sacz Country*, Information bulletin, no. 2/1998, Nowy Sacz Club, Nowy Sacz, 1998, pp.26-27.

<sup>13</sup> *Report on the State of the Nowy Sacz Country Count.*, op. cit., pp.121-123.

<sup>14</sup> Before the transformation and at its beginning, one of the main employers in the Nowy Sacz country, employing over 3,000 people.

**Figure 2. Business units registered in the Nowy Sacz country by REGON in 1994-2002**

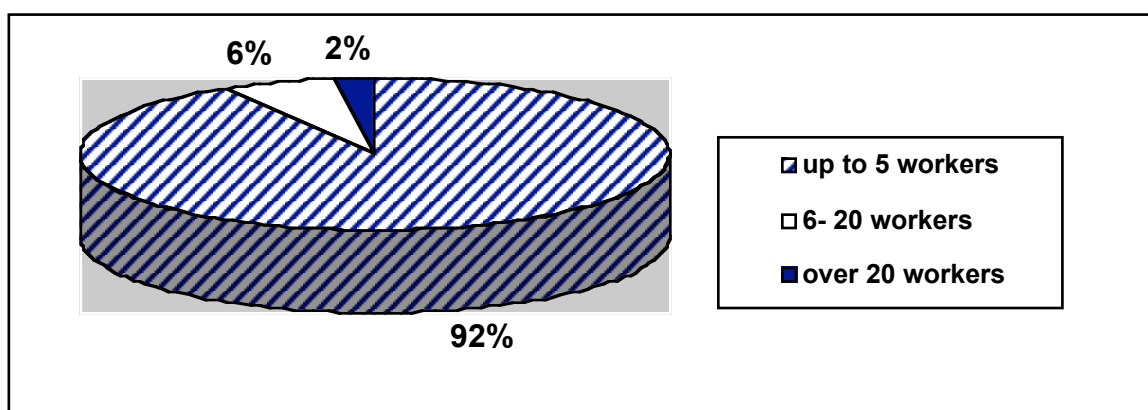


Source: on the basis of data from the Regional Statistical Office in Krakow

Most of the enterprises employ up to five workers (91.8%). Over 90% of them are individuals running their own businesses. The enterprises employing 6 to 20 workers take up 6% of all businesses.

In 2001, the Nowy Sacz country was inhabited by 279,060 people. The population growth dynamic is one of the highest in Poland. People working outside agriculture account for 55.3% of all employed, and those working in agriculture account for 44.7%. According to data from May 2002, unemployment in the Nowy Sacz City County reached 16.2%, and in the Nowy Sacz Country County it reached 21.2%. The unemployment rate for the Malopolska Region was at the same time only 13.4% and for the country 17.2%. There was a slight fall in unemployment (0.4%) since 2001.

**Figure 3. Economic units divided according to the number of employed people in 1998**



Source: on the basis: The Nowy Sacz Country Economic Development, Nowy Sacz Club, Nowy Sacz, 1998

## 4. Internal conditions of created networks

### 4.1 Optimus S.A. company

#### description

Optimus S.A. was established by Roman Kluska in 1988. Optimus is the largest IT company in the Polish market, operating as a provider of Internet and IT solutions. Since 1994, the company is a public limited company quoted on the Warsaw Stock Exchange. Optimus' achievements include:

- The most popular Internet portal, Onet.pl, chosen by 37% of Polish Internet users,
- The first in Poland to successfully implement an integrated system of Internet banking, Sez@m, and telebanking for Bank BPHPBK S. A. (Bayerische HVB Group),
- The biggest online shop, "e-Market",
- The leader in production of computers and electronic appliances,
- A systems integrator (Seventh place in the list of the biggest integrators of IT solutions in 1998).

Optimus took fifth place as the most recognizable Polish brand (in all-sector ranking) and first place in the IT sector.

Optimus Capital Group consists of 38 dependent and associated companies. Most of them have Optimus as a dominating shareholder. The biggest companies are:

- Onet.pl S.A. – Internet and multimedia, the most popular Internet portal, Onet.pl,
- Optimus Lockheed Martin – System integration services and technologically advanced IT solutions.
- Optimus IC – Fiscal cash registers production,
- Doctor Q – Offers e-business solutions for banks, brokers, and trading companies, as well as group work applications,
- e-Market – Running all kinds of production, trading, and service activities, especially using the electronic media, including Internet and digital TV. This company is a joint venture between Optimus and Polsat.

Optimus concentrates its activities in three main segments of the IT market:

- Creating and offering solutions in consulting, and carrying out e-Commerce projects: home banking systems, insurance, brokers' houses, pension funds, logistics and sales chain support systems, including Internet shops, creating and maintaining Internet sites and online shops, intranets, and professional hosting services,
- Providing integration services using the world technologies within close partnership and cooperation with IT branch leaders (Lockheed Martin, Microsoft, Intel, SCO, IFS, Molex, Cisco).
- Production of its own electronic equipment (computers, servers, graphic stations, fiscal cash registers), and distribution of a full range of peripheral equipment.

Optimus also invests in the development of several unique IT technologies, such as: information security (cryptography), videoconferencing, management support systems (ERP, MCM, documentation flow), medical systems, and intelligent cards.

The best measure of the company's success is service contracts, for example the contract signed with the Police Headquarters in Lodz for the creation and implementation of an integrated command support system.

The company's strategic aim (having direct influence on operational profit of the company) is to win the position as the preferred integrator in Internet and IT solutions. The main challenges the company faces on its way to achieve this goal are:

- To transform the company into a "knowledge company," having at its disposal the best IT staff,
- To win the position as best IT employer,
- To adjust its group structure and management systems to effectively use product and service synergy and Optimus operational costs,
- To maintain its position as the leading manufacturer of PCs and fiscal cash registers and provider of an Internet portal and Internet services.

Optimus is the only company in Poland's IT sector that builds its offer on the synergy of products and Internet and IT services with considerable input from its own knowledge and experience. In this way, the company meets customers' expectations, offering them a full spectrum of complex solutions.

#### **4.2 Characteristics of the computer company network**

The group of companies producing computers and office equipment (hereinafter called the computer companies) now consists of 11 companies in the Nowy Sacz city and country counties. One of those companies—Optimus S.A.—belongs to the big companies (producing computer equipment), and another one—Optimus IC (production of fiscal cash registers)—belongs to the group of medium-sized companies<sup>15</sup>. Optimus S.A. employs at present 300 people, while Optimus IC employs around 150 people.

The Optimus company was the result of the entrepreneurial skills and international experience of its founder. The company became the *door opener* for this type of activity, which was previously unknown in the region and in the whole Central Europe. The Nowy Sacz country was chosen as the location because:

- It is the hometown of the entrepreneur (R. Kluska comes from the Nowy Sacz country),
- The region has low production costs,
- There are highly qualified staff specializing in electronics and IT in the vicinity, especially from the Technical University (AGH) in Krakow, Krakow Polytechnics (PK), and Jagiellonian University (UJ).

The *spin-off* process, which led to the creation of new computer businesses, initially experienced the same problems Optimus experienced, such as a decrease in computer production profitability and employees' desire to become independent<sup>16</sup>. The company did not draw conclusions from the falling profitability of computer equipment production and did not invest sufficient financial means into information services and software, trying to focus its strategy on lowering the costs of its core activity.

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<sup>15</sup> Optimus IC once belonged to the Optimus group. The company was separated from the group and then sold. Due to its activity, the company is classified under the "Computer and Office Equipment" section, but it provides products other than computers, so it cannot generate stronger ties with the cluster of computer producers. The relationships result only from personal ties of the management and personnel, because of the former functioning within one structure and neighbourhood.

<sup>16</sup> One of the main elements of Optimus' competitive edge was its pay regime, which consisted in keeping the wages on a higher level than the rest of the region (where the pay is one of the lowest in Poland), but it was often still unsatisfactory for highly competent employees. Spin-offs from Optimus emerged not only in the Nowy Sacz country, but also in other parts of the Malopolska Region (Bochnia, Olkusz, Nowy Targ, Limanowa, Gorlice, Tarnow) and in the Silesian region (Katowice, Bytom, Jaworzno).

The *spin-offs* create a cluster of companies around two big ones. The main representatives of the cluster are: Komtech, Batcom, Proteuss, Marczyk, Silver, Simply, Skipper, Klik, and Optinow. All of those companies were set up by the former Optimus employees or people somehow related to Optimus. On average, they employ 3 to 10 people, but in times of high demand for their services they can even employ formally or informally up to 40 people. The activity of these firms is an additional and sometimes informal source of income for present and former Optimus workers who lost their jobs in the restructuring process. We should also add that each of these companies offers software, server, and system integration services. A group of 126 business units offering IT services in the region also have their origin in employees' spin-off from Optimus. Therefore, we cannot talk of the concentration of IT companies,<sup>17</sup> but of the concentration of companies dealing with production and maintenance of computer equipment. Anyway, most IT companies in the region were established by former Optimus workers.

The network of computer equipment producers originated in Optimus S.A. and is a result of the following:

- *Spin-offs*, consisting of creating companies by former Optimus workers (original *spin-off*) or in restructuring and separating business units from Optimus (derivative *spin-off*),
- *Know-how*, especially in computer equipment production, the source of which was Optimus,
- Presence of local staff highly qualified in electronics and IT,
- Easy contact among the owners of computer companies resulting from their university acquaintances, former work for Optimus, or the fact that they live in the same neighbourhood and spend their free time together.

Apart from 11 businesses whose main activity is the production of computers and office equipment, there is a large group of companies offering IT service (126 businesses) and computer equipment sellers (21 companies), which list production as an additional activity. In the case of computer equipment dealers, 12 of them take part in this additional activity, and in the case of IT service providers, probably about 10% to 15% of them produce computer equipment. The official list of computer companies should include the many companies that work in the black market. Illegal production causes an additional decrease in the profitability of officially operating companies. Such production is partly carried out with materials and resources from legal companies, for example with the used parts whose repair is not profitable for officially operating companies<sup>18</sup>.

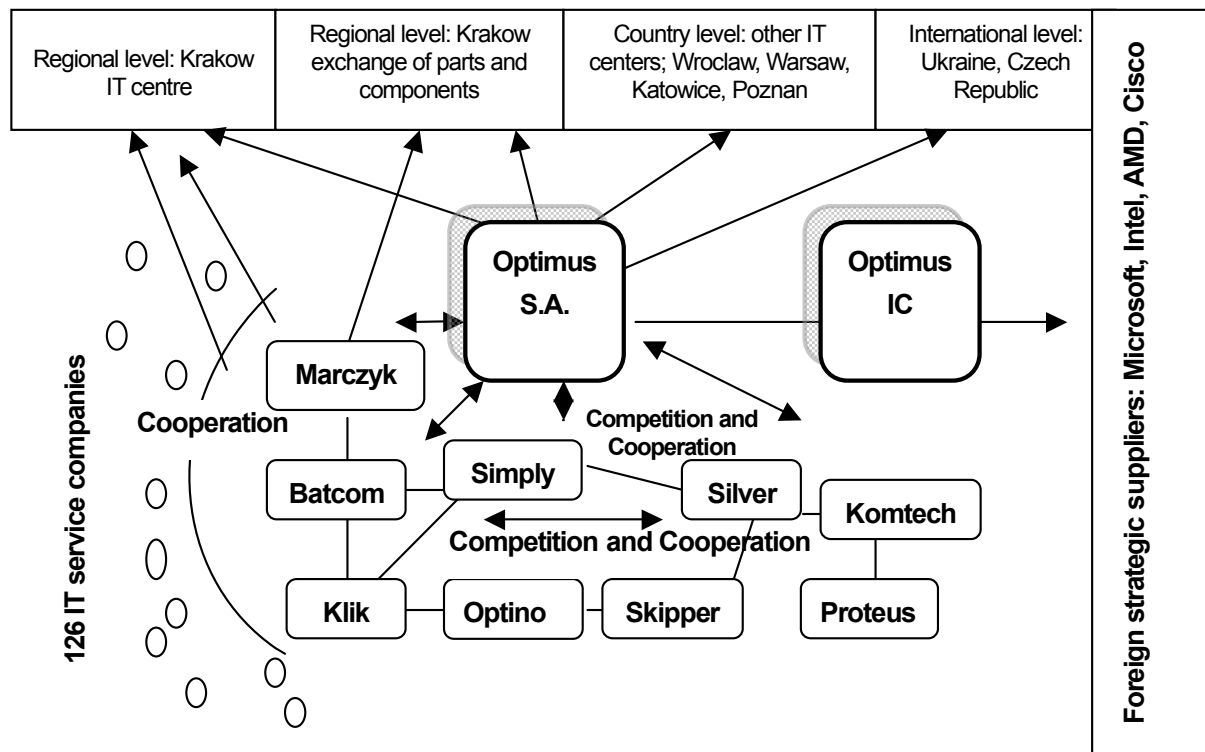
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<sup>17</sup> It should be added that the number of companies is determined by the demand factors – the present number of companies satisfies the demand of enterprises in the region. Authors' footnote on the basis of their own research on SME in the Nowy Sacz region.

<sup>18</sup> Optimus's No.5 warehouse collects used parts, taken free of charge.



Figure 4. Computer company network



Source: Authors' research

The computer companies in the region create network relationships with:

- Companies selling computer equipment (Computer equipment dealers in the region receive both Optimus and other smaller manufacturers' products. Optimus S.A. and Optimus IC have dealer networks outside the region. Smaller producers restrict their operations to the region),
- IT service companies (Optimus S.A. uses companies from outside the Nowy Sacz country and the region, while smaller producers use companies from only the region),
- Companies providing computer equipment service and maintenance<sup>19</sup> (Small companies' demand is fulfilled in the region or in the Malopolska Region, Optimus S.A. and Optimus IC, due to their nationwide dealer network, have a national and sometimes international service network),
- Companies as customers who purchase equipment and services connected with its installation and use, as well as IT systems integration (Sales satisfy the needs of companies in the Nowy Sacz country, but in the case of Optimus, it is mainly directed to other regions and abroad, mainly to the Ukraine),
- Banks (Those located in the Nowy Sacz country are used),
- Business service firms (Smaller businesses use service providers in the region, while Optimus S.A. and Optimus IC use service providers from other regions).

<sup>19</sup> In 2003 Optimus separated from its structures the whole service and maintenance department.

Optimus uses the outside suppliers for 100% of its parts and components. Smaller companies buy almost 100% of them in Krakow, and only sometimes purchase from Optimus S.A. The black market units often buy used parts from legal producers or obtain used components from Optimus free of charge. We can find here some limited relationships with related sectors within the region, but there are much stronger relations with supporting services sectors.

**Table 1. Computer companies – vertical relations (within related and supporting sectors)**

	<b>Optimus</b>	<b>Small companies</b>
<b>Nowy Sacz country</b>	Companies from related sectors, to a certain extent: small firms as subcontractors, IT service companies. Supporting services: dealers, banks, financial, legal.	Firms from related sectors: IT services, maintenance, software comprise almost 100% of demand. Parts and components to a certain extent. Firms from supporting sectors: dealers, banks, advising companies, training, accounting comprise almost 100%.
<b>Malopolska Region</b>	Firms from related sectors: software, parts suppliers. From supporting sectors: advisory services, dealers.	Firms from related sectors: parts and components suppliers on the Krakow exchange comprise almost 100%. Supporting services: dealers comprise only 10% of demand.
<b>Country level</b>	Firms from supporting sectors: advisory services, banks, dealers	_____
<b>International level</b>	Firms from related sectors: parts and components suppliers, suppliers of software.	_____

**Source: Authors' research**

The companies producing computers and office appliances have not undertaken any formal joint initiatives yet, such as creating a joint organization, association, or chamber of commerce. However, Optimus belongs to the National Chamber of Commerce.

Eleven computer companies make a very competitive environment. The network relationships take the following forms:

1. **Operational networks** – Joint participation within a group of small companies, subcontracting work in projects carried out by Optimus S.A. In these networks, the role of territorial self-government and other local and regional public institutions is essential, especially as an employer. The cooperation of Optimus and small companies as dealers in the region also belongs to the operational networks.
2. **External networks** – Built mainly by Optimus S.A. and Optimus IC. They are important for the whole cluster, because they provide information and innovation transfer. Some small firms organise joint purchases from external suppliers. These networks are often built in cooperation with the chamber of commerce.

3. **Networks focused on increasing competitiveness** – They rely on the information and knowledge exchange between companies. WSB-NLU plays an important role here as a school offering both management and IT education. Many staff gained or are still gaining their management and IT systems education there. Additionally, students and staff, through internships or practice, can realise their dreams and turn them into businesses.

The creation of such networks can be supported by:

- The exchange of personnel between these enterprises, often using the same workers for different companies on specific contracts,
- Ties between the entrepreneurs who used to work in the same company (Optimus).

The main companies, Optimus S.A. and Optimus IC are the source of *know-how* for smaller producers and companies that treat the computer sector as an additional area of activity. Those two big companies are also, at least partially, a source of supply. For the black market units producing computer equipment, Optimus S.A. is a major source of supplies and the source of new technologies transfer, too.

**Table 2. Networks of firms and environment organizations**

Networks according to their goals	Participation of environment organizations in Nowy Sacz country		
	Regional	Country	International
Operational networks	Territorial self-government, schools, hospitals, dealers		
External networks	Parts suppliers in Krakow	For Optimus – in the region, country and abroad: public institutions including KUKI, companies including Intel, Microsoft, Cisco, AMD	
Competitive-edge networks	Nowy Sacz Chamber of Commerce, WSB-NLU	IT companies from Krakow	Intel, Microsoft, Cisco, AMD

Source: Authors' research

### 5. The economic importance of clusters for the region

The organizational form of the cluster-network of computer companies resembles a wheel with a *hub* and *spokes*—dominating companies surrounded by a group of small businesses. One could also point out the relations characterising the orbit of a *satellite*, due to the dominant position of owners of Optimus from outside the region<sup>20</sup>. There are not any co-operative subcontracting relations in the

<sup>20</sup> The majority share of Optimus belongs now to BRE Bank. Authors.

production process, which is typical for this form. They are replaced by vertical relations connected with distribution and services for the end-user (distribution, maintenance, IT services); therefore, we can only notice supporting sectors.

The big company, Optimus, is a source of *know-how*, and a source of establishing processes and *spin-offs* for small producers, companies treating computer production as an additional activity, and black market units. The development strategy could focus on more profitable sectors, such as software and system integration, and place emphasis on cooperation and capital ties with IT companies. The disadvantage of this solution would be its late use compared with other companies from the branch. The main development opportunity for small producers operating locally and regionally can be the competition based on integrated offers for Malopolska Region firms. This would be an offer combining products and services for IT systems management.

The Nowy Sacz cluster-network of computer companies can be treated as a cluster because it meets the basic criteria of this form of industry organization:

- Spatial concentration – Due to the specificity of their activities, they do not develop relationships within related sectors, but have relations with supporting sectors,
- Competitive and co-operative relationships – Such relationships include those among enterprises and network relationships among companies from the same sector and companies from supporting sectors (subcontracting, services, market transfer of technologies, components, employee mobility, hidden knowledge transfer),
- Network relationships with environment organizations – Examples included WSB-NLU in the field of training and education, professional service companies, chambers of commerce in the field of acquiring information on support resources, and training,
- Competitiveness and innovation – The cluster consists of the most competitive companies in the sector. Their products, services, and organizational innovations spread to the other participants in the cluster,
- Relations with the external environment – Such relations are outside the region or abroad, and they are essential in times of quick innovation generation. They provide the cluster companies with information, knowledge, and technology.

## **6. Summary – Outlook for the network development**

One can show the network relationships inside the sector cluster, that is, among companies in the computer sector. These relationships are spontaneous, and even if they formalise, they do not focus on innovative projects, but on the present day-to-day problems of management. Therefore, we cannot classify these clusters as typical innovative networks in accordance with the definition presented by the European Commission.

In spite of the existence of many environment organizations, which could play organised roles in the increase of competitiveness of the analysed firms, we cannot discern such coordinated activity. There are several natural and valuable forms of support for the companies offered by WSB-NLU and the chamber of commerce, such as information and knowledge flow, but they are spontaneous and are not based on organised cooperation, but on the entrepreneurs' and managers'

agreement. There are some potential support means (such as an incubator, which is not directed and serves the general purpose of providing access to infrastructure) and inter-organizational initiatives such as the Nowy Sacz Economic Council or the Nowy Sacz Club. Unfortunately, their activities do not address particular problems pertinent to the groups of enterprises.

Independent of these forums, several organizations supporting SME work in a diffused and independent way and do not offer any system of support. The support policy should be directed at building innovative networks and innovative systems. The process of creating innovative systems through innovative networks of co-operating enterprises sounds natural. The impulse for the creation of such networks can be given by environment organizations inspired by local leaders.

## 4. Enterprise Network of Engineering Companies in the Ostrava Region (Czech Republic)

Danica Krause

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### 1. Ostrava region

In former Czechoslovakia, the Ostrava region was famous for metallurgical and engineering industries. This territory was also known for its huge concentration of labour employed in the above-mentioned sectors, which at the time were very strategic sectors. After 1989, important and fundamental social and economic structural and procedural changes happened. Privatisation and restructuring processes questioned the fundamentals of further development strategies for the existence of big state-owned companies.

At the roots of huge state-owned metallurgical and engineering companies, new private companies of all sizes have gradually been appearing, founded to a certain degree by employees of giant previously state-owned companies.

Throughout the 1990s, the Ostrava region was home to areas with the highest unemployment rates in the Czech Republic. Employment in this region was influenced on one side by restructuring, the drop of mineral resources mining, and smelter production, and by a fast decrease in the number of people employed in the industry and building sectors on the other side, which came after 1997. During these events, employment in the first sector was decreasing. Segments of the third sector were unfortunately unable to react to the new available labour force with the appropriate number of vacancies.

### 2. Co-operative engineering network association – FLUIDTRONIC

We will have an opportunity in this case study to analyse a concrete case of networking among small and medium-sized companies active in the Ostrava region. These companies rose gradually after 1989 during the process of privatisation and restructuring of the Czech Republic's market and came up from the former state-owned company Klement Gottwald's Iron and Engine Works and its successor, Ironworks Vitkovice Corp. FLUIDTRONIC, the engineering association of companies, was created in the same way. FLUIDTRONIC consists of five private companies: Namely, OCHI ENGINEERING Ltd., NORTECH Ltd., NORTECH IVV Ltd., OCHI HYDROTECH Ltd., and PNEUKOM Ltd. Their business activities are shown in the table on page 75.

The **main goal** of the given enterprise network is *to create an association of companies offering final products on the market through mutual cooperation*. Individual members of the network have tried to realize this goal gradually over ten years (since 1993) through the creation of a chain of member companies<sup>21</sup>.

The following statements were chosen by the network members as **integrating mottos**:

- *The right way towards success is as valuable as a “good“ person*

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<sup>21</sup> The companies of this co-operative engineering network provided during the time of common activities deliveries amounting up to 1 billion CZK (ca. 33 mil. €)

- *It is necessary to preclude dogmatic ways of thinking and groovy experience*

## 2.1 History of creation and evolution of the engineering network association

From the point of view of the evolution history of this enterprise network, OCHI ENGINEERING was the first company to be founded. As already mentioned, it was founded in 1992 with no outside capital investment. It was intended as a technical and engineering company in the Severomoravsky region. The company picked up the activities of OZANA ENGINEERING, which was founded in 1991. Mr. Ozana, the owner and director of the company, did not create his own company, but continued his father's work by expanding this private company.

The **main activities** of the enterprise network are targeted at *project and final delivery realization*, while using permanent production and montage subcontractors from Moravia and Silesia. The companies apply their technical know-how gained through their experience, especially in the field of hydraulics, and they still upgrade this know-how with new pieces of knowledge gained by their own **research and development**. As for cooperation with other companies in the market, the companies involved in the network target their activities to cooperation with well known Czech and European companies, especially in the area of engineering, but also in the form of subcontracts with the idea of providing optimal use value and high product reliability and lifespan for the final customer.

Enterprise network activity is supported by both the desire to improve skills and tighten contractual cooperation with BOSCH REXROTH Brno Ltd, which is a subsidiary of BOSCH REXROTH AG—one of the world-leading producers of hydraulic and pneumatic systems and components. Another important strategic partner for this network of Czech companies is INTERNORMEN Filter GmbH. OCHI ENGINEERING is an exclusive representative of this supranational company in the Czech and Slovak market for filters and hydraulic and lubricant systems.

When OCHI ENGINEERING started its activities with small and medium-sized enterprises, it led to the creation of the FLUIDTRONIC engineering association. OCHI ENGINEERING was the “parent company”, and four other of the abovementioned independent companies were members.

### 2.1.1 Reasons for creation

The network of mutually cooperating companies was established in 1992 as *a result of a spontaneous and intuitive process*. In this process, concerned companies responded to the market and to their own evolution. During 1996, members of the network described their common activities as a *network of mutually cooperating companies joined together to accomplish common goals*. Partners identified common goals thanks to the cooperation of institutions specializing in analysing and promoting small and medium-sized enterprises. Such institutions included the Agency for Enterprise Development and the Technical University in Ostrava.

Mr. Ozana initiated the idea, because at that time, there were no networks of cooperating companies with the goal of developing companies without increasing the number of employees and at the same time assisting friends and colleagues to find their own place in the market. The strategy of intentional support for the creation of new companies instead of expanding existing companies offers several advantages, according to the original founder of the network:

1. **Human factor** – Colleagues and employees of the original parent company gained new skills and qualification and did not want to work as employees or subordinates anymore.

2. **Company size** – Increasing the number of employees to more than 25 can cause certain problems (which were not exactly specified) for employers. Their entrepreneurial, working, and professional independence is preferred by them and can be achieved within the network.

At the beginning of the formation of this network, OCHI had the leading position. OCHI was also the main partner for cooperation and winning orders. The original goal of the concrete integration and formation of the enterprise network was research and development activity. At this time, these goals were expanded. Approximately 46 to 50 employees work for this enterprise network at the moment.

## 2.2 Evolution of the engineering network association

During the second half of the 1990s, the first signals of metallurgy recession came up. These signals peaked in 1999 with high failure of expected contracts—a very negative situation for member companies of the network. The network companies were hit by the following negative impacts:

- Sudden restriction of expected and already pre-projected investments (loss of expected contracts and, therefore, revenues),
- Aggravation of payments discipline, looking for something other than direct payment mechanisms during times of financial loss,
- Secondary attenuation of business activities with companies also dependent on the metallurgical sector.

These facts immediately generated a decrease in the number of expected contracts to be signed by approximately 40%, followed by an adequate decrease in each company's added value.

The described situation started the process of looking for new business spheres<sup>22</sup> with the aim of restructuring professional and marketing directions of individual members of the cooperative network. This strategy was fulfilled thanks to the *integration of small and medium-sized enterprises*, which won contracts through a complex offer of professional and contracting services for the Congress Prague Centre and for the new building of the Slovak national theatre in Bratislava. The leader of this consortium chain was OCHI ENGINEERING Ltd.

Function verification of the contractors' network of small and medium-sized enterprises formed a foundation for further broadening the chain with a wider range of offers for both Czech and international companies.

## 2.3 Structure of the cooperative engineering network association

The structure of the cooperative engineering association of these companies is not a legal entity and supposes equality for all members. Contractual coverage of mutual cooperation contains the description of the following common activities<sup>23</sup>:

- Mutual subcontracting within projects and orders won

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<sup>22</sup> Within the TECHNOS project, solution started by the Ministry of Industry in 1998 that targeted other industrial sectors other than metallurgy and heavy machinery were defined. Development and innovation of the systems within the TECHNOS project supported marketing and sales activities and substantially influenced the growth of the company's revenue between 1998 and 1999.

<sup>23</sup> See picture, page 40



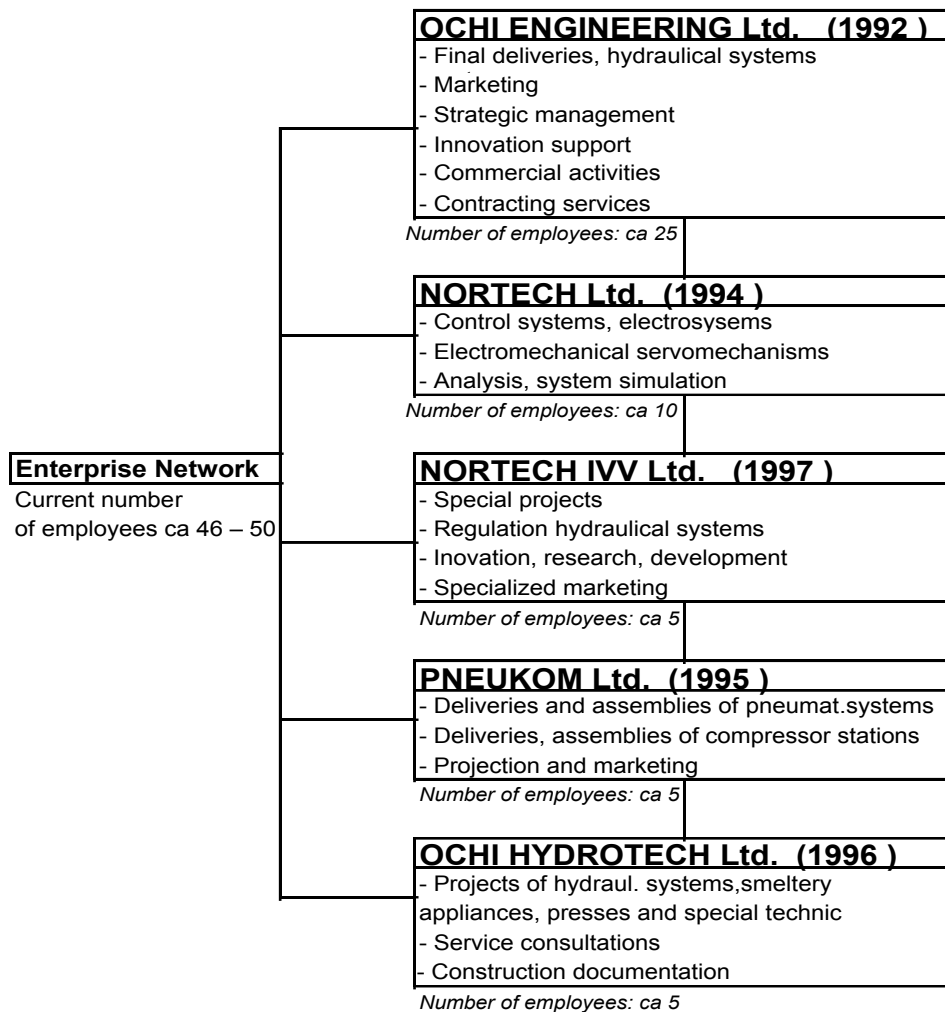
- Regular consultations and meetings of network members
- Harmonization of marketing strategies
- Research and development

A permanent network of cooperating companies does not involve any other institutions. The main **cooperation strategy** is as follows: *one of the members wins an order and divides it among individual members of the network*. Besides other coordinating activities, this network of mutually co-operating companies also directs its activities to non-productive activities like selling know-how, for example.

As following from the aforementioned, this case represents an **informal network** concluded with a contract but not as an actual legal entity, or “**outwardly together.**”

In a given enterprise network, members deal only with *human resources development* on the basis of vocational training and improving the qualifications of employees of the individual network members, as well as *experience sharing and current market information sharing*. Common planning in the financial area is strictly directed at winning new orders and contract creation with customers. One standpoint is taken into consideration: creating such work, partnership, and cooperation conditions so that financial resources for all network member operations would be assured. Mutual cooperation and common preparation of network members culminated in winning the Quality certificate QMS ISO 2001.

**The structure of network member activities is displayed below:**



## 2.4 Internal rules of the cooperative network association

The network cooperation of the abovementioned companies arose on the basis of *long lasting friendships* among its members who are currently leading the individual members of the network. Every company is an independent unit with an informal commitment coordinating the relationship and cooperation of all network members. Every member of the enterprise network knows well the conditions set during common consultations. There is high professional credence and permanent inner rendering of informal professional skills among network members during the whole time of this cooperation network's existence. Unlike this fact the credence toward other companies operating on the market is getting weak. Several reasons include bad payment disciplines, long invoice payability (60 – 120 days), not redeeming debts, clients' insolvency<sup>24</sup>, etc.

## 2.5 Societal and economical status of the cooperative network association

Based on the opinions of enterprise network members, we can characterize their **economic positions** as weak or medium. They are considerably dependent on the mutual interregional help of other entrepreneurial subjects, which is based first on personal, long-lasting, professional relationships and friendships.

Representatives of the enterprise network say that **social prestige** of the entrepreneurial subjects in the region is generally very much dependent on keeping contacts and relations with *local political representation*. There is almost a direct relationship between these two facts. The members of the network, therefore, can not specify their distinct social status as they do not keep contact with or have no relations to local political representation.

The **image** of enterprise network companies is targeted at solely *the quality of work, research, and development, as well as expanding permanent know-how* and publication activities in specialized technical magazines.

## 2.6 Negatives and positives of the cooperation network

The most important **positive aspect** of cooperative activities within the enterprise network is members' *independence* and especially their own space for *self-realizations* both in the area of management and organization and in the area of development strategies. The creation of the enterprise association was a positive fact itself. This new quality structural organization and mutual cooperation development made it possible for member companies to *stabilize* their activities on the regional and super-regional markets.

As already stated, the evolution of the enterprise network is long, lasting for about ten years. It is hardly possible not to face several problems and disagreements among members, both of professional and personal character. However, as shown in interviews with members, none of these problems influenced the existence and operation of this enterprise network in a substantial way.

During this time, mutual cooperation was strengthened by the signing of a contractual agreement by individual members of the network. The members appreciate the fact that they stay independent. However, they point out the fact that they feel obstructed by not having the opportunity to influence other companies' employees during the process of cooperation. One very interesting fact came out as the **main negative effect** of network operation: *the creation of inner competition within the network*. The situation of competition among cooperating members of the network comes out mainly when there is not enough work (orders) or

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<sup>24</sup> Since 1989, the receivables market was created. This market is comprised of companies specializing in the receivables business—buying them for 15-25% of the original value. They receive material from debtors and can dispose of them in any way they want. The state is present in the market through the state-owned and run Consolidation Agency.

when the individual members of the network association have no intention of restructuring their own companies. It happens, therefore, that individual network member companies compete with each other on the outside market. The roots of this phenomenon are to a certain extent influenced and supported by characteristic problems of the Ostrava region, not by intentional and targeted unfriendly activities of individual members of the cooperative enterprise network.

### 3. Future development outlook

The abovementioned characteristics and specifications of the Ostrava region are evidence of the problems in this part of the Czech Republic. In the past, intentionally promoted and supported parts of Czechoslovakia during the economical changes of the 1990s became areas with high unemployment rates. Thanks to historical pre-definition of the region's evolution, there are uneasy conditions for entrepreneurial activities here.

Companies of the enterprise network were formed during the first half of the 1990s, which was a very dramatic time for this region. Their activity picked up the business of big state-owned companies, and members gained remarkable professional and personal skills during this time in the areas of metallurgy, engineering, research, and hydraulics. They also gained experience in the areas of company management and mutual cooperation. Despite this general experience, a **pessimistic vision** of small and medium-sized enterprises' survival without active help from strong **foreign strategic partners** overbears. **Isolation** and a feeling of loneliness felt by small and medium-sized enterprises in this region might be to a greater extent moderated by such a partner. According to members of this enterprise network, small and medium-sized enterprises will not survive on the European Union common market without strategic partners<sup>25</sup>.

Another problem causing troubles for entrepreneurial activities of small and medium-sized enterprises in this region is an insufficient **communication system**. The level and construction of new roads and highways is insufficient.

Running **restructuring processes** substantially influences further market activities of this enterprise network, and to a certain extent, erodes members' own strategic conception of their evolution.

The members of the cooperation network are also afraid of permanent insufficient support of small and medium-sized enterprises from the state. Despite the fact that this area represents one of the four main pillars<sup>26</sup> of the European Union Employment policies, the member companies do not expect any substantial improvement.

The enterprise network of engineering companies already promotes its activities in cooperation with strong foreign partners important in Europe. Thanks to this exclusive cooperation, the member companies have better chances of winning export orders.

Individual members of the network are also members of several **entrepreneurial and professional associations** in both the Czech Republic and Kazakhstan<sup>27</sup>. However, the network member representatives regarded this membership as *meaningless* because of no feedback from these associations. They can

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<sup>25</sup> The Czech Republic is to enter the European Union in the first half of 2004.

<sup>26</sup> European Union Employment Policy has been consisting of four main pillars since 1997:

- Increase of Employment
- Support of Enterprise
- Enterprises Adaptability Support
- Promoting equal opportunities between men and women

<sup>27</sup> Czech association for transport systems deliveries in Kazakhstan (entrance fee CZK 160.000 or € 5.000)

sometimes get some information, but the membership itself does not have any special or important privileges compared to relatively high entrance fees and regular membership fees. They only see a point in the membership in the Consortium of Industrial Companies of Moravia and Silesia, where they can concretely negotiate about orders, which contributes to the development of the member companies of the enterprise network.

### **3.1 Strategy of cooperation development**

The basic conception of further development strategy for both individual network members and the cooperation network itself can be described in five points:

- Communication,
- Team cooperation,
- Productivity (in the sense of finances it means time vs. money: “Work takes too much time.” For example, German workers need 10 hours to carry out a certain activity while his Czech counterpart needs 60 hours),
- Creativity
  - Activity
  - Orderliness
  - Imagination
  - Professionalism
- Human resources development – mainly language courses (hiring English teachers).

During the experience and activities not only in the Czech Republic market, the enterprise network member companies concentrated on the process of creating and perfecting the chain of their cooperation and know-how. Therefore, they have extended their activities to the field of research and development, and they cooperate actively with the BIC (Business and Innovation Centre) on state-run projects together with the Ministry of Industry, Czech-Moravian Development Bank, and the Technical University in Ostrava. Within solutions of this kind of projects, the FLUIDTRONIC member companies and the abovementioned institutions create *formal, time-limited cooperative networks* and their common activities are targeted at concrete problem solution.

## **4. Summary**

The entrepreneurial network association of the abovementioned engineering companies has been for the last ten years intentionally targeting its activities towards its members’ skills and professional development, as well as toward developing the quality of the enterprise network itself. Active member interest in new knowledge in the area of small and medium-sized enterprises positively helps the operation of this association. As mentioned in this concrete example, the form of small and medium-sized enterprise network cooperation can (on certain outside market conditions and by a certain degree of the members’ maturity) positively influence network member stabilisation in the market and can make their economical activities easier.

## 5. **Family Joiner Company Cooperation Network in the Domazlice District (Czech Republic)**

Danica Krause

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### 1. **Introduction**

This case study is located in two small villages and the district town of Domazlice in the district of the same name, Domazlice. This district forms the central part of the south-western part of the Pilsen region. This region is located in south-western Bohemia and consists of seven districts (Domazlice, Klatovy, Pilsen – city, Pilsen – south, Pilsen – north, Rokycany a Tachov), and three<sup>28</sup> of its districts border to Germany. The regional capital, Pilsen, is an important economic, transportation, cultural, and education<sup>29</sup> centre. From the industrial branches point of view, industries located mostly in big settlements are typical for this region. Other parts of the region far from district towns and big settlements are oriented on agriculture and tourism (*Pilsen Labor Office: Labor Market Status and Development Analysis in the Pilsen Region, 2002*). This part of the Czech Republic is a strategic locality for transportation not only between the Czech Republic and Germany but also between Western and Eastern Europe. The residential density of this region is the second lowest in the Czech Republic.

In the first half of the 1990s, major changes in the employment sector took place. Substantial part of this region's workers found their jobs in the manufacturing industry. In the continuing process of transformation between 1996 and 1999, vacant employees from respective sectors increased the number of unemployed. In the year 2002, all the districts of the Pilsen region showed lower registered unemployment rates than the unemployment rate of the Czech Republic as a whole (9.2%). Small organizations employ about 30% of all the employees from this region. One of the strengths of this region is its geographical location (advantageous especially for industry development), tradition of industrial production, diversity of industrial sectors, and a relatively rich transportation network connecting the region to neighboring countries.

District of Domazlice's registered unemployment rate is the second lowest (6.1 %) in the Pilsen Region.

### 2. **Joinery**

This case study describes cooperative activities of an **informal network** of three small joinery entrepreneurs with employees active in the Domazlice district, Pilsen region. Joinery<sup>30</sup>, a branch of the woodworking industry, is a Czech traditional handicraft, and joinery production is an important part of entrepreneurship in the Czech Republic. The tradition of furniture and wooden products production has been formed over centuries. However, recently, furniture is not often inherited from past generations anymore. During the last century, opportunities and interest in owning houses grew. In the process of ongoing urbanization, production of stylish furniture became important, and demand for urban interiors grew. All these factors positively influenced the

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<sup>28</sup> Tachov, Domazlice, Klatovy

<sup>29</sup> There are the only universities of the Pilsen region in Pilsen.

<sup>30</sup> <http://ledenice-nabytek.domovina.cz/>

development of joinery workshops all over the Czech Republic. In certain areas, joinery became a typical industry.

## 2.1 Haymaking of the handicraft

To demonstrate the rich history of Czech joinery, we will detail some of the well-known products of this craft from the last century: living room furniture with high-grade glaze, monumental cabinets with inlaid mirrors, and inlaid furniture or so-called American cupboards for demanding and rich clientele. Some of the joiners used their own plans and layouts, others bought them from well-known and famous architects, especially in the 1930s. In that time, joinery, among other handicrafts, was passed **from father to son**. Families connected with joinery production were small businesses and employed up to several tens of journeymen. Joinery craftsmen founded syndicates and guilds (e.g. the professional guild of joiners, woodcutters, and turners). If the business grew into a handicraft cooperation, it became a centre of joinery production and involved administration offices and headquarters.

Until WWII, the highly skilled and superior **handicraft** of the joinery craftsman and his **journeymen** was essential. The foundation for professional joinery handicraft was the high quality of the original handicraft and **the pride** and the **privilege** for this work felt by the joinery entrepreneurs from the beginning of the last century. The ratio of machine production in the following decades increased gradually but machines only made for rough wood working. Military programs applied in former protectorate Bohemia and Moravia were aimed at specific fast military production. These programs brought fundamental changes to production by increasing the amount of machine production. Classical handicraft and cabinet-making during WWII was practically stopped.

The postwar era after 1945 brought a temporary and very short rebirth of superior handicrafts to Czech and Slovak joiners. Woodcutters again entered the market that handicraft representatives inhibited for years. Furniture with superior finishing, as well as stylish furniture, was produced. Guilds of Czech craftsmen and joinery businesses and other syndicates show their products at both local and nationwide exhibitions and fair trades and take up the boom and rich tradition of the prewar years. However, new workshops building and old workshops enlargement limited financial means necessary for purchase of corresponding machinery equipment. Complicated and difficult economic situation of both entrepreneurs and other population in the postwar era brought again technological lag.

## 2.2 Socialization of handicrafts

The situation of Czech and Slovak joinery changed fundamentally in 1949 because of the communist putsch and contiguous nationalization activities of the Communist Party. Concentrated power in the hands of one party increased the pressure for radical and complex socialization of handicrafts and entrepreneurship through the foundation of “people’s production cooperatives” and “national companies.” Based on contemporary materials and historical elaboration of this period, we can say that forced socialization and massive abolishing of both small and big entrepreneurial activities took place in a very dramatic way. Both craftsmen and small farmers rebelled against the nationalization of their small companies and foundation of people’s production and agricultural cooperatives. Another part of this black period in our history was the dramatic period between the end of the 1940s/ to the beginning of the 1950s when people of dubious moral and professional qualities often became the leaders. In the beginning of the 1950s, national administration was imposed on private handicraft production and new **national companies** were founded (associating the people’s production or agricultural cooperatives), thereby replacing private handicraft and agricultural production. Production

premises as a part of national companies grew gradually under the pressure of full employment and incepted in many cases monotonously built cities. Production activities of the joiners were divided into specialized workshops, often under the names of previous entrepreneurs or their companies. Machines from nationalized workshops were concentrated here, but this did not enable the creation of appropriate stocks of machinery. Modernization of production took place step by step and was in many cases assisted by individuals' production of machines and tools for themselves.

### 2.3 National companies

Handicraft production became a part of state-owned national companies managed through so-called “**central planning**.” Entrepreneurial activities were suppressed and abolished, but the development of branches and joinery did not stop. Lack of production material was one of the problems that had to be faced by national companies in the production process. Hand in hand with technical development and thanks to high qualification of the workers, many workshops could change their orientation toward interesting and lucrative production programs. Stabilization of the production, mutual cooperation of particular companies, and cooperation with the Foreign Trade Office created good economic conditions for individuals' development and experimental products. The tradition of the joinery production and its high quality, mixed with elite culture and housing architecture, found a positive response from international experts and the general public. International export enabled new investments into quality foreign technologies since the end of the 1960s. All labored joinery procedures were gradually mechanized and large materials could be fabricated. For the first time it was possible to employ low-qualification labor, especially housewives.

### 2.4 Comeback of private handicrafts

In 1989, the political situation in the former Czechoslovakia changed. The leading role of the Communist Party was abolished and a pluralistic system of parliamentary democracy was established. Private ownership was restored and the economy started to change to a market economy through the processes of transformation and restructuralization.

A market economy brings many advantages compared to any centrally planned and managed economy. We can divide them into two basic groups : one that disposes of incomparably wider and superior *subject potential* and one that creates incomparably rational criteria for economic decision-making. These two basic groups of market economy characteristics correspond with the type of market economy and its orientation-liberal, conservative, or liberal-conservative. They get an especially modified character in transitional economies, including the Czech Republic's economic system. During a forty-year absence of private entrepreneurship, our society faces **eradication of the norms of entrepreneurial behavior**. Socio-economic changes influenced ways people make decisions and how they act. A **new socio-economic context** was formed, and both people and the society skirted the process of adaptation to its existence, the process of internalization of values connected with its existence, and the habitualization of strategies appropriate for a new context of order in our society.

In the joinery branch, entrepreneurial production of furniture was renewed. It tries to take up the tradition interrupted in the end of the 1940s. A new generation of joiners draws on handicraft traditions of production but current production already uses modern techniques. Following traditions is more difficult because of uneasy conditions for the foundation and development of small and medium-sized businesses (SMEs) and because of the necessity to find effective forms of entrepreneurial activity in the market.

### 3. Network cooperation of joinery companies in the Domazlice district

This case study describes cooperation activities of a small informal network association from the Pilsen region. This informal network consists of three small joinery entrepreneurs<sup>31</sup> (5-10 employees) working in two small villages and the district town of Domazlice. Those entrepreneurs are connected through family relations. Almost 60,000 inhabitants live in the district of Domazlice, 45% of them in the countryside.

The first member of the network, Mr. M.J., started his business under his father's supervision in the district town of Domazlice in May 1991. In the beginning, their entrepreneurial activities were targeted to the sale of full timber assortments of dried construction stock lumber. Later on, their offerings was extended with a wide assortment of tools. After finishing school, Mr. M.J. started to manage the family company and extended its activities into custom joinery and the sale of varnishes, glues, and binders. Mr. M.J. employs five permanent employees.

Another entrepreneur, Mr. S.B., got his license at the end of 1994 and since the beginning of his entrepreneurial activities, he has worked in a small village close to Domazlice. He employs eight permanent workers and two students during the busy season. Since the very beginning, he has concentrated on atypical furniture production, cabinet-making, wood-carving, and renovations. He is the cousin of Mr. M.J.

The third company in the network is managed by Mr. D.V. It was founded in August 1995, and since the beginning of its activities, it concentrates on custom furniture production. The seat of the company and the workshop are located in a small village close to Domazlice. Mr. D.V. employs mainly his dependents but uses several external workers, too. He is a cousin of the other members of the network, too.

All three entrepreneurs work mainly in their domiciliary district of Domazlice and neighboring districts of the Pilsen region, including Tachov, Horsovsy Tyn, and Klatovy districts. They have built up the background for their entrepreneurial activities by gradual enlargement of their family houses. Even though all three entrepreneurs work in the joinery sector, each of them tries to concentrate his business activities in an original way. Over time, their cooperation activities developed, and we can currently categorize these common activities into three basic goals of the informal network association:

**Mutual help** of respective members, especially through cooperation in their commercial activities.

**Cooperation with external regional institutions** of the municipalities.

**Cooperation** with joinery and construction companies in special and specific (mostly) **regional projects**.

#### 3.1 Mutual help and cooperation in commercial activities

The tradition of joinery is adherent to the extended family in which these three small mutually cooperating companies were founded. The three entrepreneurs are already the third generation of joiners in the family's history. They took up the entrepreneurial activities of their great-grandfathers right after the revolution in 1989. Mr. M.J. was the first one in the family to decide to pursue entrepreneurial activities, and since 1991, he has been selling dried construction lumber. In the beginning, he was working in provisory premises, and after that, he moved the company into his newly built house in Domazlice, on land returned to him as restitution. The enlargement of the workshop made it possible to extend his offerings with a wide assortment of tools. During the period of the gradual building-up of both his company and his house, he was helped by both his maturing

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<sup>31</sup> Based on the respondents' wish we do not publish any identification data.



son and two cousins, Mr. S.B. and Mr. D.V. Based on the respondents' statements, we can say that they got their relationship and love for wood from their fathers. In the private company of their fathers (uncles), they had time and space for self-realization, both in the area of practical wood processing and a firm background for further decision-making and future career planning.

All of the respondents are of a similar age and finished their continuation school almost in the same year. Shortly before the end of their studies, they started to consider their future work. Mr. M.J. solved this problem right away, as he says. Because of the bad health of his father and thanks to his wish to follow his ambitions, he took over his father's company and extended its activities with custom joinery and the sale of varnishes, glues, and binders. The other two respondents, Mr. M.J.'s cousins Mr. S.B. and Mr. D.V. did not have such a clear path before them. Each of them got precious experience through practice in their uncle's company, both from the area of joinery and from the "art of entrepreneurship." Neither of them had enough finances to found and build their own businesses. They could not even ask their cousin for help, as he was new to the market. Therefore, they had accepted his offer and started to work for him as employees. Mr. M.J. used the skills of his new employees to extend his offerings with cabinet-making.

### **3.1.1 Coevals and family relations**

In Mr. M.J.'s company, informal family relations based on the similar ages of the cousins and on common professional interests worked well at the beginning. Respondents could mutually lean on strong and intensive feelings of **trust** for each other. This feeling was built throughout the years spent together in as a family and in the workshop and school. As they say themselves, they knew each other as well as brothers do. Despite the fact that formally the company was led by Mr. M.J., in reality each members equality was respected in both the area of decision-making and remuneration. Youthful energy, enthusiasm, and companionship helped them to overcome the everyday-life obstacles of entrepreneurial life. They have also felt supported by the advice of Mr. M.J.'s father, who often helped them by passing his experience on to them. He made their roles as entrepreneurs easier and led them in the process of digesting new forms of acting and decision-making in entrepreneurial activities and joinery work.

### **3.1.2 Formation of informal cooperation activities**

Strong informal family relations among the respondents over time and under the influence of new problems and difficulties started to bring complications in communication as well as in understanding the motives for each other's actions. On one hand, the opportunity to discuss problems, opinions, thoughts, and remarks makes the process of mutual communication (especially the informal one) faster, but on the other hand, it opens an immense space for direct and sharp criticism that may not necessarily be accepted by the others. During the interviews, the respondents agreed that the absence of any horizontal structure of competence and power splitting was one of the reasons for rising mutual disagreements. Both family employees did not feel their cousin and employer to be the "boss" but more as their coeval and companion.

During the first year, the position of the company on local market became stable, but internal problems of mutual communication rose. After less than one year since the beginning of cooperation, the respondents had to face strategic questions about their further professional existence. Mr. S.B. and Mr. D.V. showed their eagerness to act independently on the local joinery market. However, their financial background made disaffiliating more difficult.

However, strong family bonds and friendly relations among the respondents helped ease the process of looking for possible solutions of this situation. The respondents' answers show that during mutual discussions,

they found solutions. They decided to establish new companies and cooperate together with the mutual help of all three small independent entrepreneurial workshops.

The disaffiliation process took almost two years, and we can divide it into three stages:

**Material and financial stabilization of the “mother” company** and of its position on the local market.

**Material and financial help** from the mother company to found new companies and entrepreneurial know-how sharing.

**Stabilization** of two **new economic subjects** on local markets, and the gradual application of the principles of **realizing mutual cooperation** of three family-related joinery companies.

Mr. S.B. was the first one to become independent and be issued his license. At the end of 1994, he started to build up his own joinery workshop. His commercial activities were targeted at cabinet-making, wood-carving and renovations. During this time, he extended his activities with atypical furniture production. He used his family’s finances and a small bank loan to fund the startup. He opened his workshop in his family’s house, like his cousin Mr. M.J. He currently employs eight permanent employees, and during the summer, he hires two university students for help.

About one year later Mr. D.V. founded his small company. Since the beginning, he has concentrated on custom furniture production. His workshop and administration office is also located at his family house. Because of the specialized alignment of his company and the low levels of production, he employs mainly his dependents but uses several external workers for cooperation realized within the informal family network.

From the point of view of founding and building up small companies on the local market, the second and the third stages of disaffiliation play an important role. As both Mr. S.B. and Mr. D.V. say, it was strategically important for their disaffiliation that they both had access to materials and financial assistance through the mother company. Because of the fact that M.J.’s company already had a stable position, it could serve as a resource for temporary lending tools, materials, and the technical equipment necessary for running a company (car, fax, cell phones etc.).

Important nonmaterial assistance when founding both smaller companies was the opportunity to exchange entrepreneurial know-how with their cousin M.J. and his father. Their advice could be faced off with the personal experience of the remaining cousins. Founding the company was linked to big administrative and financial obstacles. But the largest amounts of energy, time, and money were needed to stabilize the new companies on the local market. As with many companies, these entrepreneurs had to face secondary payment insolvency and the never-ending carousel of invoices to and from clients and customers.

### **3.1.3 Mutual cooperation strategy**

Stabilization of the companies’ position on the local market, finding customers, and developing both entrepreneurial and handicraft skills created the background for further strategies based on mutual cooperation of the three independent companies on the local market. The nature of this conception of further trilateral cooperation development was **informal**, based on mutual **trust, family relations, and the “conscience of the others.”** Part of this cooperation strategy was already realized during foundation and stabilization of two new joinery companies within the family. Mutual material and financial help among the subjects of this informal network remains even now, and throughout the years has become a matter of course. However, financial help

is not necessary and each subject is absolutely self-sufficient. They still cooperate in the area of finding and intermediating among clients and customers.

Strengthening their positions on the market made it possible for the entrepreneurs to plan and look for further developments realized through mutual cooperation. The aim was to achieve goals that could not have been achieved alone. Association with the network (an informal one in this case) made it possible to bid on bigger and more lucrative contracts. Their cooperation was, therefore, extended with two following areas: cooperation with external regional institutions and extensive cooperation within the sector.

### **3.2 Cooperation with external regional institutions**

To extend their commercial and entrepreneurial activities, members of this informal network decided to develop cooperation activities with several regional institutions. Within close neighborhoods of their city, they were only half successful<sup>32</sup>. Uniting forces and expanding each entrepreneur's scope of contacts gradually brought orders for the network from external regional institutions (mainly from the non-state area) from districts neighboring the Pilsen region. The entrepreneurs' network ensured delivery of lumber, furniture production, and office furniture production for offices, schools, shops, etc.

Recently (after personal disagreements and controversy) this informal network of joinery entrepreneurs found success in their home district, too. This success is highly evaluated by all of the network members and their families. It also increased their **prestige** and **credibility**, thereby increasing the awareness of fellow citizens and neighbors about the entrepreneurial activities of the network, as well as about the **family tradition** in the joinery handicraft.

Besides his commercial activities, Mr. M.J. takes care of municipal cultural and sport events. He uses these events to present his company and network. Mr. S.B. and Mr. D.V. do not consider their colleague's political skills important for the work of the network. They consider it to be a private issue of Mr. M.J., having very little impact on the network itself.

### **3.3 Wide Extensive cooperation within the sector**

Another part of cooperation activities within this informal network of joinery entrepreneurs is cooperation with other joinery and construction companies and, in cases of specific regional projects, with other organizations. With regard to the diverse specialization of respective network members, they can offer their **business partners** a wide range of services and opportunities for mutual cooperation: material and products storage in the network members' storage facilities, as well as the possibility of gradual take-offs, realization of custom furniture production, production of larger series of furniture parts for neighboring furniture companies, material and products transport to the business partner or customer and assembly at the place of delivery, interiors production and assembly, interior renovation and maintenance, furniture renovation and other specific renovation work.

The most complicated part of this area of informal network cooperation is cooperation with other companies, the respondents say. They have not always managed to coordinate material delivery dates and production, and the same **variability of success** is had with invoice payments. There is **pressure** from the companies and organizations involved in with the network toward the network members, and there is the

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<sup>32</sup> We can assume from the interviews that the cooperation activities realization of this network with external institutions was only half successful because of negative personal relations and experience with respective employees of these institutions.

necessity to keep a “*good mood*” among relations and contacts with others for the opportunity of cooperation in other financially interesting projects.

#### 4. Internal structure of the network and family relations

The informal network of joinery companies from the Domazlice district has no firm inner structure which is determined by competence and power splitting in the respective coalition. The entrepreneurs themselves practically did not even consider formal contractual description of cooperation within the network. They are confident that their cooperation is based on firm family relations, friendships, and mutual trust. Inner order is based on the principles of keeping promises, conscience, and quality mutual cooperation through the family-connected entrepreneurs.

Trilateral cooperation in the informal network is not a result of long-term planned strategic conception. It arises often from the need of the entrepreneurs to adequately react to the current situation in the market. Mutual cooperation is felt by the respondents as a *form of family cooperation* (created from certain specific objective and subjective reasons), not as a strategic conception of economic existence and surviving in the local market.

The network members feel that family relations, handicraft tradition, and a firm background in the place of work are very positive factors influencing the success of their entrepreneurial activities. They admit, on the other hand, that certain (psychic) pressure exists from a close neighboring public and the awareness of this public about their entrepreneurial and private activities. This fact is an integral part of life in villages and small municipalities.

Advantages and disadvantages of the informal network are as follows: Mutual cooperation activities of the joinery entrepreneurs' informal network have lasted for ten years already. As already mentioned in previous case studies, the most positive aspect of mutual cooperation seen by the network members active in the Pilsen region is having had the opportunity to enhance their entrepreneurial activities and develop further, all this based on firm mutual informal family relations and a long handicraft tradition. Mr. S.B. is even sure he could not have realized this form of cooperation with a “strange” entrepreneur with no family connection. He says he could not have built up such a strong **feeling of trust**. The other two informal network association members can imagine such cooperation with “strange” entrepreneurs. However, in that case, they would insist on contractual definitions of the basic principles of mutual cooperation and common activities as well as regular activity revisions. The lack of trust is described in the new Czech study called “Traveling in the Czech Future,” which argues that the omnipresent possibility of deceit has become an implicit memento of any cooperative strategy in the Czech Republic.

The opportunity of using materials and intellectual resources from the existing joinery company of M.J.'s father was of fundamental importance for successful development and stabilization of the network members entrepreneurial activities.

During the time and through practical experience, the informal network members came to the conclusion that association and joint concentration of economic activities will help them **compete**. As a cooperating unit they had the opportunity to take part on important and lucrative projects mainly in the Pilsen region. Their long experience created a strong sense of **group cooperation and work organization**.

The informal character of mutual economic cooperation also naturally brings specific **disadvantages**. The feeling of mutual trust, which is highly valued by all three network members, is supported by certain

amounts of (sometimes even excessive) tolerance and understanding for mistakes of the other family member and business partner at the same time. This willingness to tolerate imperfection within the network stops when a “crisis” needs to be solved. From time to time, each member also has to face certain quarrels in the network which, naturally leaves its mark and influences relations.

From the Mr. S.B.’s point of view, through enormous concentrations on mutual cooperation (as almost the only one and fundamental opportunity of a more successful and fruitful position in the market) the network members lose their ability to find new realization and deeper development by themselves.

Qualification development of network member employees is rarely provided. The entrepreneurs themselves are forced by the market competition to deepen their knowledge and skills but are not really concerned about vocational training for their employees. The employees are therefore forced to get new skills and professional knowledge during the production process. The time irregularity of current handicraft production and low remuneration to the labor force fundamentally influences high fluctuation of the member companies’ employees. Instability of the job in this sector is obvious from the average age of the workforce employed by the entrepreneurs, which is very low at 20.2 years old.

Another disadvantages (resulting from economic activities of the network members and the conception of cooperating associations) are objective problems resulting from the status of the socio-economic environment and thus influencing the management of cooperation and individual economic activity. From the very beginning, the entrepreneurs faced problems of insufficient and ineffective support for small and medium-sized enterprises from both state and non-state (mainly banking) institutions, as well as a lack of capital resources for business development. Despite the fact that they themselves do not contribute much to vocational training of their employees, they are worried by the efflux of labor to the Federal Republic of Germany where people regularly commute for better paying work, especially from the western part of the Pilsen region. Another problem faced by not only the respective informal entrepreneurial association is poor and insufficient traffic connectivity, as well as a low level of services in the countryside and in the borderland.

## 5. Resume

The Czech Republic is undergoing large changes during its transformation process. These changes strongly influence the lives of its inhabitants. One of the areas showing the dynamics of development in our society and the influence of the socio-economic changes and processes on the population is the area of private entrepreneurship. During forty years of absence of private entrepreneurship in Czech society, forms of entrepreneurial behavior were eradicated. Socio-economic changes influenced peoples’ decision-making and acting processes. Both people and society had to undergo the process of adaptation to a **new socio-economic context** and a process of internalization of values connected with its existence. Certain forms of behavior and actions had to be newly created and developed during this period and had to be absorbed in the process of creating strategies in the minds of people.

Our case study from the area of renewed family joinery tradition offers pieces of knowledge about facts that can both objectively and subjectively influence the development of private entrepreneurship and the creation of economic strategies for survival and success in local markets. Even in an environment with difficult conditions for the foundation and development of small and medium-sized enterprises (rigidity of legislation, high tax burden, lack of capital resources, ineffective support for small and medium-sized enterprises) it is possible to succeed by looking at appropriate strategies of entrepreneurial activity development. The

entrepreneurs mentioned in this case study managed to succeed through unification of their power and mutual cooperation to develop and stabilize their entrepreneurial activities in the local market. Creation of an **informal** network association was influenced in this case by very subjective factors. **The family tradition** of the joinery handicraft created primary conditions for founding joinery companies. Along with this company, two other companies were founded during the years, and cooperation network activities were developed consequently. Mutual **trust** of the network members was based on the family relations and friendships among entrepreneurs. Being relatives was the informal but very strong indicator influencing the strategy of each members' activities and the realization of the network as a whole.

In the first two cases we saw (besides other factors influencing the foundation and development of the network cooperation of small companies) a leader created the cooperation network by following his vision of opportunities and new strategy on how to succeed in local markets. There is neither such a leader nor such a vision in this particular informal network case. Joinery entrepreneurs active in trilateral cooperation came to form a network through the need for solutions (the only possibility at that time) and the need to satisfy their entrepreneurial and personal ambitions, as well as using, following, and continuing in the family handicraft tradition.

Based on acquired pieces of knowledge, we can assume that the reciprocal relation of objective (socio-economic context of the society) and subjective (family background, feeling of trust, friendship, self-realization) factors influencing the foundation and development of small enterprises helps the creation of cooperating groups. With certain skepticism, we have to add that in this particular case, the only goal of these cooperation activities was to achieve economic disaffiliation of the entrepreneurs, and this form of cooperation lasts only as long as it is economically profitable in local market. The mutual cooperation brings this profitability.

We can only hope that further development of our society will create such socio-economic conditions, forms of entrepreneurial behavior, and self-realization strategies so that the mutual cooperation of those in the network will be enriched by goals targeted at reaching social welfare and greater economic benefits than just *“surviving in the market.”*

## **6. Network of the Regional Press Publishers Association in Bohemia (Czech Republic)**

Danica Krause

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### **1. Introduction**

During the 1990s, fundamental changes in our society influenced the development of the socio-economic environment in the Czech Republic. The urgency for further development of the region and eliminating the centralised tendencies was obvious even before 1989, when the political system in the former Czechoslovak Socialist Republic was changed. During the structural changes and transformation processes, the topic of decentralization and further development in the region became important. Small and medium-sized enterprises (SMEs) and their activities are an integral part of both the socio-economic stability and prosperity of the region, and they positively influence the employment level in the region. The resulting economic recovery contributes to widening the scope of further regional development.

The region plays an important and indispensable role in this case study. The changes that formed the market in the Czech Republic substantially influenced further existence and vitality of companies operating on both regional and state levels. Because of the high intensity of mutual relations among businesses in the region, it is interesting to mention the situation of SMEs operating on the regional level. In our case, we will focus on regional **press publishers**, and we will consider them to be the representatives of the SMEs as their activities are almost solely connected with their respective regions. Regional press in the Czech Republic have built on their rich and long-lasting tradition. Publishers, together with newspapers, took care to operate on the national level and provide versatile information to readers. In its many forms, the press became an everyday reality over the years, and the significance of it is growing permanently. From many points of view, the press is an interesting commodity.

In this case study we will not look at the press as a media with a specific grade of impact for the readers. We will describe specific regional publishers as businesses operating on the regional market. We will also focus on the problems connected with their position in the market, development strategies, and success and survival against competition through the application of a strategic conception of network cooperation among SMEs.

### **2. Czech region – cooperation network of regional press publishers**

The Czech Republic is internally divided into specific larger and smaller areas and units with certain characteristic levels of socio-economic diversity, which formed during the global evolution of the society. There is a strong reciprocal relationship between the inhabitants and the region. The inhabitants of the Czech Republic are strongly connected with their local environments. A local region's quality and further development influences and co-creates the character of its inhabitants way of living. Regional press plays the role of an information channel for the economic and social activities in the region. It also is an integral part of the respective area and actively contributes to forming the tradition of the region. We can also see considerable

identification of the inhabitants with regional press. Every periodical is trying to increase the level of readers' identification by increasing the technical quality of its publications and carefully selecting the form and character of the information contained.

There are two sources of profit for the regional press, both are of strategic importance: from the sale of the publications itself (which also shows the interest of the readers) and from the sale advertising space (which is naturally more important from the point of view of the financial volume). Therefore, we can assume that the economic situation of the regional press is strongly connected with the economic potential of its respective area and with the share of the total volume of both regional and national advertisements won.

In this case study, we will focus on the networking cooperation of regional press publishers association in the **media and advertisement representation network** lead by the coordinating and initializing company called the **Cesky Region Company** (Czech Region).

The Cesky Region Company Ltd. was founded in July 1999 as the media representative of the cooperation association of Bohemian and Moravian regional weekly newspapers and has its seat in Prague now. It was founded thanks to the initiative of Mr. Kameel Machart and his then companion. The company nowadays associates with **27 regional publishers**<sup>33</sup> and participates in publishing 38 regional titles of regional periodicals in Bohemia and Moravia. The total outlay of the media represented is 286,090 copies and based on this network's statistics we can say that the average number of regular readers is about 1 million. The most frequent readers are first of all inhabitants of the respective region and neighboring areas, and thanks to tourism, we can also see readers from unexpected parts of the country and even from abroad. The newspapers' target group is the adults (30+). Most readers are female.

Because of the fact that this cooperation network is formed by a variety of members, we will try to characterize the members by common characters. The respective regional publishers associated in this network are small<sup>34</sup>, independent businesses employing five to seven employees and having the overlay of five to seven thousand copies. Weeklies with higher overlay—sixteen thousand (e.g. Horacke Noviny)—employ about 20 employees. The **Cesky Region Company** is the coordinator of the whole network of associated regional publishers and acts as an **integrating and representative subject**. The network itself is currently represented by three companions and two permanent employees. Mr. Machart is still heading the company and takes an active role in both the company and the network operation.

As already mentioned above, regional newspapers are not able to survive only from the income from the sales of newspaper copies. An important part of fixation and development of there financial background and potential is the income from advertisers.

Orders and income from advertising are strongly connected with the character of the region, particularly with the region's economic conditions. According to the initiator of the network of regional publishers, **the main goal** of the Cesky region network is to unite regional publishers and thereby increase their financial share<sup>35</sup> of the income from large and lucrative advertisement campaigns realized by big media agencies. Stabilizing and enhancing the position of regional publishers in the market is also seen as a main goal.

## 2.1 The foundation of the network of regional publishers

Based on the information received during interviews with members of this cooperative association of publishers and already existing materials about common activities, we can say that the **initiator** of this network

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<sup>33</sup> During the period of existence there have been 4 to 5 cases of bankruptcy of regional publishers.

<sup>34</sup> As for both the number of employees and the turnover.

<sup>35</sup> The associated companies increased their turnover from advertisements to several million CZK.



of regional publishers is Mr. K. Machart<sup>36</sup>. He originally comes from the Czech city of Beroun<sup>37</sup>. After high school, he studied at an art-industrial university. Besides the above-mentioned activities in the area of regional press, he has been working in advertising. With his friend and then companion, he founded a Beroun district newspaper. Both started to work as entrepreneurs in the regional press. With regard to their youth and education, they were absolute amateurs. After seven years, their newspaper became successful thanks to their experience<sup>38</sup> and professionalism, and it could be compared with the level set by other Czech regional periodicals. At the time, these entrepreneurs were facing questions of future strategic development. Based on their experience with the operation of a regional periodical, they decided it was necessary to make up an effective cooperation system with other colleagues and subjects, particularly with publishers of other regional newspaper.

The idea of cooperation among the people from the business and the name “**network cooperation**” first appeared at the end of 1999 or beginning 2000. There were two main reasons for this cooperation:

- Advertisers were interested in regional newspapers but only in the case of the existence of a bigger economic entity. While describing the advertising market, they came to the conclusion that big advertisement agencies are not interested in a single regional newspaper. They also realized that these agencies control the budgets for advertising on the national level. Therefore, it was necessary to unite the regional publishers.
- Another inspiration came from their friendship with entrepreneurs who at the end of the 1990s in the Czech Republic founded a cooperation network of grocery stores called ESO MARKET. As an opportunity for informal learning and gaining insight into new strategies of economic activities for SMEs, networking motivated the impulses of Mr. Machart and his friend. They also believed the same principles could be used in their business, too.

Based on the above, the two entrepreneurs and future founders of the network association had to face one main question: Why and how to operate as a network of regional press publishers? They had to decide which approach to founding the network to take. Principally there were two ways: either they could contact and attract one by one each regional periodical publisher, or they could first find whether the principles of network cooperation work in daily life. Based on previous positive experience with the process of fluent learning through facing experience, successes, and non-successes, they have chosen the second way—*confirming whether the principles of network cooperation work in daily life*. They have contacted regional publishers in the neighboring areas west of Prague (Kladno, Rakovník, Píseň). After some negotiations, the first conception of a new network of cooperating regional publishers in Central Bohemia was created. The original idea was to found a new business—a new company (Ltd.) where all members would also be companions. The reality was different. Even such a small collective was full of different ideas, interests, and positions—sometimes even contradictory. It was also important to see that not everyone was willing to bear the new risk that always appears when trying new things.

The original authors of the network association decided to change the character and direction of their business. They stopped their economic activities in the role of publishers of regional newspaper and founded a

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<sup>36</sup> In the initiation stage of the network creation Mr. Machart cooperated with his then companion who is no more taking part in further activities of the company.

<sup>37</sup> Central Bohemia

<sup>38</sup> The respondent himself characterizes this time of gaining experience as “*teaching outsiders at work.*”

new company—Cesky Region Company. Its role was to operate as a media representative and coordinator of the newly founded network of regional publishers. They have signed mutual cooperation contracts with five other network members. Those publishers who were not able to bear the possible risk connected with the foundation of network cooperation wanted to take part in the earnings of the Cesky Region Company after two successful years. This attitude has not proved realistic.

### 3. Czech regional press publisher

We will try to describe the motivation leading to the foundation of this cooperative network association of regional press publishers through self-reflection of the respondents. Based on this, we will have an opportunity to get to know the typical Czech regional press publisher—working from offices with unpretentious office equipment and low-tech environments. The regional press publishers humorously characterize respondents as “maids of all work” (because under the pressure of circumstances, they have to perform several jobs at once—secretary, proofreader, editor, correspondents’ coordinator). It is common for regional editorial offices that the publisher also serves as the editor-in-chief.

Besides the constant mix of responsibilities, they have to tackle the same urgent questions every month:

- Where to take money for regular salaries for the employees and external cooperators?
- Will we manage to finish in time for to meet the printing deadline?
- Do we have enough advertisements to cover the press costs?
- How much have the prices of paper, fuel, and postal fees risen?
- What are the recurring new requirements of distributors and resellers?

It is important to mention that regional editorial offices can only work successfully and publish newspapers regularly if there are enough enthusiasts who, thanks to their verve and dedication, can regularly overcome the abovementioned obstacles.

The fact that the survival a regional newspaper is dependent on the economic potential of its region has been obvious already since the beginning of the 1990s. The idea of a strong economic background for the regional press publishers and realistic opportunities to improve their financial situations is unique. As results, from the answers of a respondent who has been a member of this network since its foundation, improving the economic situation of regional newspapers at that time had advanced beyond the planning stage toward actual application—*bringing the idea to life*. His response was as follows: “*Our newspaper had been planning a similar advertising network in the mid-1990s. The motivation was clear—to unite ordering of advertisements and hereby make otherwise small newspapers attractive even for big advertisers. Otherwise, they will place their advertisements only in big dailies and magazines. After several tries at founding such a network, we came to the conclusion that we did not have enough strength to do anything besides publish our newspaper. In the summer of 1999, we heard that Mr. Kameel Machart was trying to found such a network. Therefore, we asked him to meet, and later we were adopted.*”

Since 1999, Kameel Macahrt has initiated negotiations with many regional press publishers regarding their association, cost sharing, and advertising prices, which can be of interest to big advertising agencies. The original number of six members has grown to 27 currently, and the network is working in all regions of the

Czech Republic<sup>39</sup>. Achieved economic success increased the feeling of trust among potential members in the process of unification and cooperation on common activities to achieve and prove the vitality of Czech regional periodicals.

#### 4. Development of the Czech regional periodicals advertising network

From the early beginning, conditions of this new cooperative network of regional press publishers had to be set so that the network would appease all participating members (regional press publishers), the Cesky Region Company, and advertising customers.

- Regional press publishers are interested in winning lucrative advertisements campaigns and sharing the resulting profit as well as in mutual communication and experience sharing,
- The Cesky Region Company coordinates the network and gets a margin from advertisements sales,
- Advertising customers are interested in the volume and territorial area of the network, easy communication, fast contact with only one subject, and the coverage of periodicals in their respective regions.

Contractual and financial balance makes the network attractive as a whole.

Regional press publishers achieved their goals soon thanks to the coordination of common economic activities, professionalization, and enhancement of their know-how. That is when they could actively operate in the advertising market. They have, therefore, set new goals targeted at further development and expansion of the network and the members of the network themselves. The goals were: Financial stabilization of regional newspapers as their situations were still not prosperous; innovation and unification of technical equipment and Internet connections in editorial offices, and regular workshops (every six months) for network promotion among both members and non-members. All of these goals were more or less fulfilled.

**Workshops** were held every six months and were organized and realized by the Cesky Region Company. The members could share their experience, information, and knowledge not only among the network members, but even with representatives of advertising agencies and political representatives of the region. At the beginning, even senators took part because as regional political scene representatives, they understood the power and influence of regional newspapers on their electors. Another important function of the workshops was the motivation for new potential members of the network. Common meetings were, therefore,

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<sup>39</sup> Covered regions and periodicals: Central Bohemia: Kladno (Kladensky Expres, Slanske listy), Rakovnik (Rakovnický Raport), Beroun (Podbrdské noviny), Rokycany, Píbram (Píbramský Periskop), Benesov (Benesovská Jiskra), Kutná Hora (Obzory Kutnohorská), Kolin (Kolínský Přes), Melník (Tydeník Melnicko), Praha východ (Polabský týdeník TOK); Usti region: Decín (Decínský Princíp), Litoměřice (Česke noviny pateční), Most (Mostecký Homer), Louny (Svobodný Hlas, Lounský a Zatecká Press), Chomutov (CV Týden); Karlovy Vary region: Karlovy Vary (Tydeník Karlovarská, Karlovarské Novosti), Cheb (Chebsko), Sokolov (Tydeník Sokolovská); Plzeň region: Plzeň, Plzeň jih, Plzeň sever (Plzeňský TIP Týden), Tachov (Tachovská Jiskra), Domazlice (Domazlicko), Klatovy (Tydeník Klatovská); South Bohemia region: Tabor (Palcat, Taborsko), Písek (Milevské noviny, Písecké postrehy); Liberec region: Semily (Pojizerské listy); Hradec Králové region: Jicin (Nove noviny); Pardubice region: Pardubice (Tydeník Pernstejn); Vysocina region: Havlíčkův Brod (Nove – noviny Posazavi); Moravia – Silesia region: Nový Jicin (Koprivnické noviny), Karvína a Frydek – Místek (Horizont); Olomouc region: Jeseník (Jesenický týdeník, Special Jeseníckého týdeníku); South Moravia region: Znojmo (Tydeník Znojmsko); Zlín region: Kromeriz (HIT – týdeník Kromerizská).

not only centred on experience sharing, but also on propaganda for new members. Over the years, the intensity of workshops dropped. There were fewer new potential members and more intensive network enlargement would have brought more problems for coordination of such a “giant.” The most important factor for discontinuation of regular meetings was also “grooviness of the system” as the founder said. Over five years, the regional press publishers network grew to a successful unit with its own system of organization and activity coordination for both members and non-members.

Effectiveness of the regional press publishers association is obvious from its rapid growth. Thanks to its activities in the advertisement market, the network made it possible for regional publishers to take part in projects in which they could never be active when acting independently. Through the sale of advertising space, the Cesky Region Company provides “extra money” to regional press publishers. However, it cannot subsidize activities and methods of operation for all in the market. Regional press publishers, as well as other SMEs, suffer from a disregard for the terms of payment by some advertisers. The market is divided between bid media agencies with stable economic backgrounds. However, in reality, the bigger the advertising agency is, the later they usually make payments. Cash flow during advertising campaigns from the agencies to the Cesky region network is irregular, and it strongly depends on the policy of the advertisement agency (Finalizing an advertising campaign can last up to three months). Therefore, finances mediated by the Cesky Region Company cannot be considered as regular and permanent income for regional press publishers.

#### 4.1 Strategies for survival in the market

Following the slogan “Unity brings power,” the Cesky Region Company grew the network in several waves, starting small and now at its current size of 38 weeklies and semi-monthlies in Bohemia and Moravia, with almost one million aggregate readers. The strategic survival concept of the Cesky region network can be summarized in following points describing specific positions of united regional press publishers in the advertisement market:

- **Alternative** – The Cesky Region Company never aimed to create a full-fledged, nationwide media force, nor to become a newspaper with nationwide circulation. The company chose to create a media alternative based on the particularity of how regional press fit in an advertising network. The network considers itself a “phenomenon, not an unsuccessful parody.”
- **Region as a motto for the future** – The Cesky Region Company offered advertising in organizationally united regional media outlets when big advertising agencies were (under pressure from their customers) looking for new ways of accosting readers in more efficient ways. It was attractive from the advertising agencies’ strategic point of view to try new avenues with regional press and to accost readers directly, using sources readers are used to, trust, and understand.
- **Variability** – The biggest competitors for independent regional periodicals are big nationwide dailies, who also fight for customers in regional markets. Most of the big dailies publish regional supplements of various qualities. However, these dailies are not able to produce quality regional news where the district is the primary unit<sup>40</sup>. Neither are they able to efficiently combine the requests of customers concerning things like the number of accosted districts within the states or regions with money for advertising, nor to successfully eliminate the number of “uselessly” accosted districts. The Cesky Region Company found space for development in this particular gap. With regard to its broad and territorially wide member base of independent regional press publishers, the network is able to

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<sup>40</sup> In the case of regional mutations of big dailies these only reflect the region, not the districts.

offer its customers an efficient alternative to nationwide circulation and to make it possible for customers to pick up districts they want to accost.

- **Longer duration** – The Cesky Region Company wants to create weeklies (in some cases semi-monthlies) with such a structure that gives readers reason to read it again and again throughout the week. From the advertisers' point of view, the regional press is interesting for several reasons: stability and adherence of the readers of these periodicals and resulting opportunity to select the exact target group when starting an advertising campaign, longer duration of the advertisement<sup>41</sup>, and of course the price.
- **The power of the outlay** – The citizens of Czech regions usually buy both the regional and nationwide periodicals. The network found positive aspects in this situation, too. Despite the fact that popularity of the regional newspaper is changing from one region to the other, there are newspapers<sup>42</sup> that sell as many copies as the most popular Czech daily, MF DNES. Total outlay of network members is as high as the nationwide dailies.
- **Made-to-measure for each place** – There was a debate at the time of foundation of this network about possible unification and efficient unification of the face and spirit of the periodicals associated with the network. Finally, the members withdrew from this direction. The members decided for a common logo for their cooperative activities—the logo of Cesky Region Company can always be seen in the header of the newspaper. For centuries, the traditional symbol of the Czech Republic—the Czech lion with two tails—dominates the logo.
- **Business chains & globalization on a small scale** – Unification of the advertising potential of the regional press and mediating the advertisement flow through the Cesky Region Company enables fair pricing and discounts for customers as well as cost-, time- and work-savings when negotiating with only one partner for the whole network.

The Cesky Region Company is currently coordinating another idea to increase offers to readers with a new full-color TV weekly program supplement. This makes it possible to attract more readers and advertisers. When this idea was being brought to life, network members had their doubts about it. The publishers pay the production costs to the Cesky Region Company, which was a factor contributing to only 9 out of 27 members deciding to participate in this innovation and take part in financing and realizing the project. Network members showed their reluctance to bear possible risk connected with development of business once already. So we can expect that after this strategy shows its success and vitality, other members will participate in more new projects as well. One quarter of the money spent for advertisement in this regional weeklies full-color supplement goes back to the publishers. When the publishers find the customers themselves they get 50%.

## 4.2 Structure of the advertising network of regional periodicals

Relations of network members are formally based on mutual cooperation contracts in the area of advertising sales between the Cesky Region Company and respective regional press publishers.

The Cesky Region Company network makes an effort to find advertisement orders for its members at big advertising agencies and mediates these advertisements to respective regional newspaper. Each newspaper

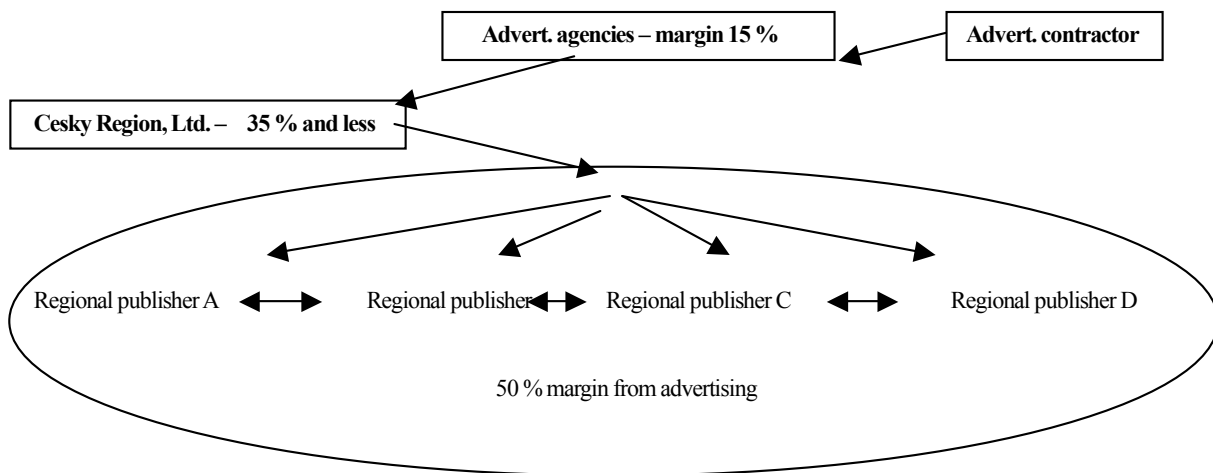
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<sup>41</sup> One of the disadvantages for the nationwide dailies is that every copy is bought everyday by more or less the same people. This does not make the group of regular readers bigger.

<sup>42</sup> E.g. RAPORT of Rakovník, Central Bohemia Region.

may find smaller orders for itself and is also allowed to distribute them among other network members. The advertising network structure of Czech regional press publishers from the point of view of their position in the advertising market, advertisement flow and margins from advertisements are shown in Graph No. 1 below:

Graf No.1



Besides advertisement orders mediation, the Cesky Region Company, as the publishers network coordinator, sets an *efficient competitors fight mechanism*. This protection tool is imbedded in mutual agreements and is effective in cases of associating new members. If there is a new publisher that wants to become a member in an area of a current member, this new member can only be associated under permission of the current member.

The permanent network of cooperating companies does not involve any other institutions. The cooperation of the advertising network of regional press publishers takes place on several levels (“*Cesky Region Company to regional newspapers and newspaper to itself*”):

- Advertisement sale and mediation
- Information flow, experience and knowledge sharing
- Protection and help in the competitors fight
- Common participation in large finance- and time-consuming projects: common realization; audit financing, and organization<sup>43</sup> of the printed and sold overlay; creation of its own statistical database of economic activities of both the network and respective members (this database makes the members orientation easier); promotion of the network as a whole.

From the respondents’ answers, we can assume that the core of the Czech regional press publishers network is represented by the Cesky Region Company, namely by Mr. Kameel Machart, who also plays an important role in coordinating network activities. In regional editorial offices, a publisher usually manages the newspaper. At the same time, the publisher also usually works as the editor-in-chief and creates the face and content of the periodicals.

<sup>43</sup> Which refuted the myth about the bad chances of the Czech regional press

### **4.3 Internal rules and the socio-economic status of the Cesky region advertising network**

Foundation of this regional press publishers network arose from the specific nature of the situation for the regional press in the Czech Republic media market. Every member of the network (this means regional press publishers and the Cesky Region Company) is an independent subject, having a contractual obligation towards other member companies. This obligation coordinates the relations and cooperation within the network. Every member is informed continuously and has an opportunity to check the money flow from the advertisements sold. Network members form a mutually cooperating group of “people from the regional press business” with formal relations. During the years of mutual cooperation, some of those formal relations have become informal.

Both regular and irregular communication among members is realized through joint workshops, Internet correspondence, Web page updates providing all the necessary information regarding the status and activities of the network for both the public and network members. The uniqueness of respective members is guaranteed through pragmatically targeted unification flowing from the essence of the network’s existence. In the beginning, the advertising network of regional press publishers aimed to achieve a certain technical standard for the editorial offices. The unification of technical and communications equipment of the regional press publishers was a very new and radical element back in 1999. The network initiator calls this the period of “Internet evangelism” in the regional press. Another manifestation of members association is the obligation of regional press publishers towards the Cesky Region Company to publish permanently the Cesky Region Company logo in their titles. The communication network cooperation system is based on the right of regional press publishers to check the financial activities of the Cesky Region Company.

Reasonably led unification had absolutely no impact on the uniqueness and originality of the regional press. Financial situation got better thanks to networking of regional publishers and more space was open for creativity, independence, and further understanding of the regional environment. We can speak about a specific kind of “globalization” with no negative concomitant effects seen so often in modern society that subdues all originality and uniqueness. Knowledge and abilities gained in the process of networking and members’ position shaping made it possible for network members to realize, get to know, and effectively use opportunities arising both from their originality, particularity, and from the network as a whole. The network and its image is based on a high level of professionalism and presentation of opportunities, activities, and media market operations. The network wants to associate those regional press publishers whose activities aim to produce titles concentrated on local inhabitants and reflecting the reality of everyday life of their respective areas.

Businessmen associated with the Cesky region advertising network used the gained experience and knowledge to strengthen their position as a whole in the socio-economic environment of the regions they work in. Using political contacts and lobbying to make their existence easier at both governmental and non-governmental institutions for SME support did not prove well. The network aimed to widen self-perception through the transformation of knowledge gained. To achieve that, it was necessary to put forth activities leading to the promotion of both the network and the respective members. Displaying the network logo on the front pages of newspapers, using and updating modern means of communications, and relentlessly informing both the public and professionals about the regional press publishers networks’ activities caused readers to start to notice not only the respective periodicals, but the network as a whole and the contribution of this network to the regional press development.

### 4.3.1 Perception of the network association

In this chapter we will take a closer look at the opinion spectrum of respective members of the Cesky region—the Czech regional periodicals advertising network. A larger part of the respondents declare that participation in network activities gave them a feeling of certainty and success. Associating with the network offered publication promotion and other benefits, which meant winning “extra advertisements” and more money. The network members also enjoy freedom thanks to the Cesky Region Company and network publishers, as well as the clear competencies definition within the network (“*The network and member cooperation system is worked out so that both sides get as much freedom as possible. As members, we do not feel any restrictions or insufficiencies.*”). Most members feel that educational network activities and sharing experience is an effective way of broadening their own abilities and capabilities (“... *We have contact with those who can collect the journalists’ experiences from the whole Czech Republic and share them with us when we ask. It mainly concerns commerce, press distribution, and most of all advertising.*”). On the opposite side of the spectrum we find mainly feelings of isolation and passive participation from members (“*Our cooperation with the Cesky Region Company consists only of printing advertisements ordered by them (exactly as we do for other advertising agencies, too) and recently we have started to buy the Region revue supplement*”). There is also inner communication criticism and disagreement over how the association should achieve its goals (“*It should be our top priority to get enough advertisements to stay profitable. Therefore, it should be in our joint interest to look for advertising opportunities and offer these under the name of the Cesky Region Company. But we do not have enough data for this. Advertising salespersons do not have promo materials for the Cesky Region Company, and we do not even know how to offer this kind of advertising. There are no courses for advertising sales*”).

Results of sociological surveys show that not all members have the feeling of intense belonging. Some network representatives see themselves as subjects totally separated from any joint activity, and they lay all competencies into the hands of the Cesky Region Company. Feeling of an information vacuum was registered, too. This feeling of disunion is to a certain degree caused by irregularities of advertisement money flow won and by difficult the financial situations of regional press publishers<sup>44</sup>. However, it is not possible to specify whether this feeling of disunion is permanent or is caused by the respondents’ poor financial situation.

The general perception of the network cooperation is strongly positive<sup>45</sup>. By pulling their power together, the network members achieved profit increases, which is extremely important especially for the SMEs—not only for the regional press sector (“... *We are in business to make profits. We have to win our bread—the easier the better. ... To publish in our country nowadays, a local or regional periodical without public funding and support is a small economic miracle. Our main motivation is to survive.*”)

The network cooperation brought commercial activities development for many members and improved even the financial position of both the Cesky Region Company and the regional press publishers<sup>46</sup>. It also positively influenced coping with the feeling of social isolation and the feeling of powerlessness of the regional press publishers (“... *Thanks to the network, we have gained credibility as a regional newspaper and can cover the whole area of the region.... We can raise the overlay and change the format and content of the newspaper. This has brought commercial and social development, especially in the relations with journalists,*

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<sup>44</sup> See page 55

<sup>45</sup> “*The company prestige rose thanks to associating with the network. The main motivation was for the Czech regional newspaper to have its place in the Czech media market. This goal enhanced the newspaper flows and increases the social position of the newspaper locally.*”

<sup>46</sup> “*...I participate in work that I like, and I can completely devote myself to it (I am physically challenged). Thanks to this, I can communicate with many people and my personal image in all areas increases.*”



*correspondents, and even the commercial partners.'').*

## 5. Future of the Cesky region network

In the regional press publishers' network, the Cesky region has no more competitors on the Czech Republic market, considering the size of the market and the regional approach. In the near future the network members would like to double the TV supplement overlay, which means concentrating on attracting new members of the network for the supplement. The Cesky Region Company supposes that in June the network should associate two new regional press publishers and at the end of this year there should be three or four more. However, these activities only aim at strengthening what has already been created. The main coordinator and ideological leader of the network, Mr. Machart, realizes the risk of simply concentration on network stabilization. For the association's strategic development it is important to look for further ways in other areas of business and watch the market develop. The most reasonable way seems to be strengthening the Cesky region network in the market and at the same time looking for further opportunities. Three years ago, the coordinator posited a question of substantial meaning for future network development: *It is not enough to create a cooperative network; why don't we create a network of cooperative networks?*

## 6. Final

In approximately the last 15 years, the post-socialist countries went through an extremely fast transformation of social and economic spheres. While trying to equal or at least to get close to the economic development of western countries, our society took on neo-liberal economic principles.

Our case study reveals that in a very competitive environment it is possible to find economic success through mutual cooperation and hold out in a competitive business environment. Positive results of cooperative network operations in the market are strongly influenced by several important factors. As in our networking case, the initial **idea** of transforming into a real network is necessary. Extensive knowledge of the business and profession, curiosity when looking for new ways of solving financial situations, and a willingness to bear possible risk makes the process of institutionalising network cooperation easier among regular and permanent members of the network.

From these facts, we can say that the process of creating mutual cooperation further depends on members' **belief** in the network's economic success. The founding leader conceives the network in the beginning. The leader's conception has not been realized in the beginning; therefore, it gives no guarantee against potential financial risk. This is not enough to persuade members to blindly follow the leader. The trust of both current and potential members rises with the success of the network and its activities. We can sort network members into imaginary groups: the first group is the businessman—a leader who coordinates the network's existence and operation. His trust comes from his inner belief in the idea itself, experience and passion for further financial activities. Another abundant group is the businessmen whose trust in the effectiveness of the network comes from already achieved success and from realizable gains achieved on the basis of the cooperative network activities of the regional press publishers. The third group is formed by those businessmen whose trust and interest in cooperation activities is not big enough to make them more active and to allow them to find self-realization within the network.

Last but not least factor, influencing the cooperation activities is the level of **professionalism** among

members. During an information explosion, regional press must cope successfully with the problem of increased competition and relative instability of business environment. The willingness to learn new things and keep an objective way of perceiving things around us is of strategic importance to the businessmen.

In this case we noted certain increases in **political abilities** orient and operate in the socio-economic environment to the extent useful to both business and the environment. The Cesky region network has been operating in the market for almost five years and has concentrated on both qualitative and quantitative development. The enlargement process, inner structure stabilization, and strengthening of its position in the market benefited the economic activities of the network, and it also made the regional press publishers existence easier. And it is the regional press publishers who contribute to painting a distinct picture of the Czech Republic regions.

## **7. Formation and Development of a Regional and Local Small Business Association in the Trnava District (Slovakia)**

Zdenek Stantny

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*“In Trnava, and equally in the whole of Slovakia, there is a lot of discussion and long debating about small and medium-sized business, but in actual reality there is too little action.”*

### **1. The external institutional conditions and creation of the Slovak Small Business Chamber (SSBCH)**

Although in the view of Trnava SSBCH Board members there are several organizations and institutions focusing on small and medium-sized enterprises in Slovakia, they are all citizens' associations whose social impact and potential are limited. Only SSBCH cooperated on the institutional level with the Slovak Chamber for Commerce and Industry (*SCHCI*), the Slovak Agricultural Chamber (*SACH*) and the like, which will allow Small and Medium Entrepreneurs (SMEs) real participation in drafting legislation and creating an appropriate business environment.

The **SSBCH** is the main institution, designated by law to cooperate with the responsible state and other bodies in the Slovak Republic. The Chamber was founded in 1998 as a self-governing body, according to Act No. 26/98 Coll. The Act specifies the organization structure and role of the SSBCH as follows:

- The Chamber shall protect and support the interests of small and middle businessmen;
- The Chamber shall contribute to proper and qualified operation of businesses;
- The Chamber shall submit opinions, proposals and viewpoints on business matters to the state authorities;
- In the educational field, the Chamber shall cooperate with secondary trade schools and vocational schools, as well as with educational institutions, in educational and study subjects related to business operations;
- The Chamber shall supplement, expand, deepen and test the qualifications of natural persons applying for business licenses;
- The Chamber shall participate, upon the relevant state body's request, in checking the pursuance of the conditions and duties resulting for businessmen from the Small Business Act.

Membership in the SSBCH is voluntary. Regional and district branches carry out the work of the Chamber, and the occupational sector sections are active within the Chamber as well.

### **2. History of the creation and evolution of local small business networks**

#### **2.1 The birth of SSBCH local branches – a chance for local entrepreneurs**

Following the establishment of the national SSBCH in 1999 as a result of a law passed in 1998, some entrepreneurs of the Trnava region also formalised an entrepreneurial network—the regional branch of the SSBCH.

The Meciar Government, having strong membership in Trnava and the strong backing of rich entrepreneurs, sought to get “their people” into these organizations and gain influence. In Trnava too, the first Chairman of the Chamber was a National Council Member for the HZDS party and a local entrepreneur. However, the organization was not primarily concerned with the typical problems of small and medium entrepreneurs, but more with big enterprises, “big money” and political targets. The membership was defeated.

They have joined in the regional branch of SSBCH with the hope that by its help they will be able to influence some barriers of the whole society, which are the obstacles to development of SMEs. The organization doesn't fulfil the general aims and role of SSBCH, so they lose interest in this activity.

## **2.2 The new informal network and the creation of a new local organization for small and medium entrepreneurs**

A small core of people created an informal network, to not just consider problems and then let them continue, but rather to articulate problems and solve them. The main actors were the small group of most active entrepreneurs and members of the former SSBCH Board of Directors.

The key actors in the informal network are currently several businessmen from the city and the districts of the Trnava region who work on the SSBCH Board of Directors. The new informal network was grounded and began working. After retirement, the former management of the office and the members of the informal network formed a new management team. Later, all of the residual members of the regional SSBCH were accepted.

The activity of the regional organization of SSBCH began to revive. In the first year they struggled with problems in the Chamber, and their activity did not reach beyond Trnava. Later, a business focal point came to life in Galanta, with a few entrepreneurs from Piestany also interested.

## **2.3 The aims of the new network**

The members of the new informal network make great efforts to enlarge significantly the Chamber's membership. **The basic goal of the members of the existing “core” network is to involve entrepreneurs of all the districts of the Trnava region in the SSBCH membership, and also enable the promotion of business interests in the individual local government structures of cities and communities.** The SSBCH aspires to be both the new base and an umbrella for other interest and professional business networks for the mutual benefit of SMEs across Slovakia, using the possibilities provided by law to further the legitimate interests of small businesses and entrepreneurs. The key to this strategy is the activation of entrepreneurs on a regional basis. The members of the core informal network of the SSBCH Trnava regional unit recruit from different districts; some of them also act simultaneously for other associations and networks. The overlapping activity and participation in multiple networks involves, on the one hand, a search for the broadest possible framework through which entrepreneurs might influence legislation and regulations having a bearing on the crucial interests of SMEs; on the other hand, it is a reflection of the individual or group interests of members, with regard to the localities they are a part of, or the branch of activity in which they engage.

## **2.4 The structure and actors of the informal network**

The new Board of Directors is working in one of the rooms in the office area of a Mr. Robert. The Board is in contact minimally one time per month, but more often when necessary. They also have one employee, a young assistant, to solve administrative and organizational problems.

The actors: **Mr. Robert**, an entrepreneur, **is the mover, leader** and one of the key, founding members of the

informal network of the new Trnava SSBCH branch. He is 46 years old, was born in Trnava, and is a graduate of the School of Economy. He sees himself as more of a “*leftist oriented entrepreneur,*” striving “*albeit free of charge, to correct wrongs happening to common small men*”...

Mr. Robert was the primary mover in the informal network, and later also elected as chairman of the regional branch of the SSBCH because “he has always been very active, taking care of things.”

He has been in business for more than ten years now. He engaged in business while still employed in 1992, and he is an entrepreneur of not only local but also regional importance. He has been known both in Trnava and in regional terms to be very active, and “not only some negligible entrepreneur.” Now he has a firm operating in both wholesale and retail electronic goods, and represents an exclusive importer of two global battery trademarks. His firm has two trucks supplying these goods to the entire Trnava, and part of the Bratislava region. He has two separate shops in Trnava, and has seven employees.

**He acquired social skills and knowledge** of how to work with people and in business while holding economic management positions in large state enterprises, by selling electronic goods in fairs and open-air bourses, and through holding such jobs as being an insurance agent.

His major motivation for work in the SSBCH is to achieve a strengthened position for SMEs, information sharing and cooperation, and joint concerted action in a number of different areas and things.

His principal participatory activity in the network is to acquire greater responsibilities for the SSBCH as such, and its regional branch in particular, to strengthen to the greatest extent possible the self-governance and the autonomy of the SSBCH within the boundaries of the law, and to “take power from the bureaucrats.”

He took up office in the Trnava regional SSBCH after a former “political nominee”... “*I am simply concerned over problems that everybody sees, but I won't just let them pass... that was also one of the reasons why I joined the Chamber... Things I do for the Chamber concern me, too. If all people were working just 'for themselves,' the ministerial bureaucrat would decide about everything alone. We would end up being some silent and humble servants and executors of regulations...*”

**Mr. Jan is another actor, who cooperates** closely with Robert in the Trnava SSBCH network. He comes from Trnava, and his area of business is consultancy in road transport, fire protection and safety at work. He initially worked for a state enterprise in transport services, where he acquired **the social skills and knowledge** to manage people and businesses.

The next active member of the Board of the Trnava SSBCH regional branch, but also in other networks, is **Mrs. Maria**. She is a chemical engineer who lives in Trnava, but operates her chemical firm manufacturing cleaning agents in a village about 15 km from Trnava. He employs 40 workers. She **acquired the social skills and knowledge** to manage people and businesses through her professional career in a management position of a manufacturing unit of a large chemical enterprise in Bratislava. “*There I learned to organize work, cope well with people. It was good preparation for independent life*” she says.

Mrs. Maria prefers a “rich and strong” chamber with mandatory membership, and also a chamber and networks reflecting specificities of women in managerial positions. Mrs. Maria is an exceptionally participatory entrepreneur. In her main business—in the network of the Trnava regional branch of the SSBCH—she strives to strengthen the position and the role of the SSBCH, and to extend its responsibilities and its areas of action, “...*I wish the business profession to grow, the legal environment and the business legislation to improve, so that people would dare to go into business...*”

In the network comprised of the Businesswomen's Center citizens' association, she would like to organize mentoring and good practice sharing with women entrepreneurs from abroad, along the principle of “Women Helping Women,” and she would also like to set up such a section for women entrepreneurs in the

Tnava SSBCH branch. The section should help address the specific problems of women in managerial positions engaging in enterprise in the Tnava region.

**Mr. Aurel from the Duajska Streda district and Mr. Marian from the Piestany district** also operate in the informal network.

As network actors, Mr. Marian and Mr. Aurel merge the very practical and tangible links of their own professional activities and informal networks with “general business” network problems and goals. They have grave and specific objections and comments about the “non-systemic” functioning of some components of the national business sphere, that they often feel “on their own skin.” Additionally, Mr. Aurel and Mr. Marian have a well-thought functioning for “their” special local networks. They **acquired the social skills and knowledge** to manage people and businesses through their jobs as foremen in state factories.

Some other actors in the informal Tnava network include **Mr. Stephan, Mrs. Maria, and Mrs. Iveta—Skalica district network actors** who set up their own SSBCH district branch in Skalica in 1999 in collaboration with the informal network of the Tnava regional SSBCH branch. For these actors, membership and work in the Chamber are important and interesting for two main reasons. On the one hand, they would like to influence in some way the drafting of legislation and the regulations affecting entrepreneurs across Slovakia; on the other hand, they would like to improve and influence the business environment locally—in the city and the Skalica district.

**All of the network actors from the Skalica district** worked in state retail trade business enterprises, where they acquired **the social skills and knowledge** to manage people and businesses. **Mr. Stephan**, worked 9 years as a tradesman in a retail trade business and employs 12 workers, Mrs. Maria worked 20 years in a food shop, and now a retail shoe shop and pub. Mrs. Iveta also worked in a retail trade food shop together with Mrs. Maria, and she now owns a hockey outfit shop.

### **3. The articulation of problems by network members**

The network estimated the most important aims and problems for SME in the town and region of Tnava as follows:

#### **3.1 Increasing membership, reinforcing the authority and competence of the Chamber, and delegating responsibility to the local Chamber**

The Tnava regional SSBCH branch currently has 88 members, of whom 75 are entrepreneurs (actual people) and 13 are legal entities.

The branch membership structure of the Tnava SSBCH has a relatively even representation. The people who are members of the regional SSBCH branch are mainly small firms employing less than 10 employees. Although they have, as a rule, multiple subjects of business activity listed in their trade licenses, they actually engage primarily in the areas of retail, consultancy and mediating services, or manufacturing. The legal entities members are most often limited liability companies with a maximum of 25 employees, operating mainly as production units in industrial manufacturing, furniture making, building construction, or engaging in consultancy and training activities.

In the year 2002, there were 38,500 business subjects in the Tnava region, of which 6,650 were legal entities and 31,850 were actual people. Hence, of the overall number of business subjects in the Tnava region,

only 0.22% are members of the SSBCH regional branch. It is clear that this unfavourable situation presents a genuine challenge calling for the activity of the existing basic network of activists.

All of the network members feel strongly about the importance of membership and association in their local SSBCH branch. With their own membership and activity, they strive to encourage others into joint action and regular meetings for professional and general reasons. “...*We believe it is necessary. Many people see in associations and conventions only the duty to pay fees and they are ignorant of what is behind it. Sure, it depends, too, on who is in the management of such guilds or associations...*” says the member.

The actors deem **delegating powers to SSBCH and the financing of the activity to be very significant**. “...*The State has set up Chambers and it wants them to discharge some functions and services in the public interest, just as they do elsewhere around the world...For example, the devolution of some responsibilities from ‘the State—bottom down.’ Yet the State resists it very much... the bureaucrats do everything possible to hold on to their chairs and papers...*”

*We did propose that our Chamber function genuinely by the law. We want to actually do all that the law provides for us to do... For example, we have both the Commercial and the Small Trade Register... If the State delegated this responsibility to the first and the second chamber, the chamber would gain in importance manifold, and in that case resources would also be available. And there would be no problem... either at district level, regional or national level... it would also carry with it some weight, not only money... Or the qualification tests... those are also under the patronage of the chamber. The law lays down the types of trades for which they are required. ...But in our country, the Ministry of Interior has reserved this authority for itself and we lack notification from the Ministry of Education as to who is authorised for retraining...*”

### **3.2 The improvement of financing of the Chamber and their activities, and the possibility of mandatory membership for entrepreneurs in the chamber**

The network member says: “*But as in other organizations, if it follows from the law that we should do something for the state administration. We also need to get finances for it and the associated operations from the State.*”

So far, the activity of the chamber during four years of **activity was funded either from membership fees or foreign grants**, such as the German Small Business Chamber. “*Hence, the SSBCH, though working in the public interest is not financed by our state, but rather, it gets support from elsewhere...*”

The actors do not exclude **further reforms in the organization** of the SSBCH that might help SMEs. For example, mandatory membership for entrepreneurs in the chamber should improve the possibilities to control compliance with commercial laws and regulations and uphold business ethics and honesty, and reduce opportunities for tax fraud and improve financing of the chambers’ activities. Equally, merging the Slovak Chamber for Commerce and Industry with the SSBCH could, as it did in Hungary, improve records on business subjects, provide information and consultancy for entrepreneurs, simplify management and administration, making them cheaper, etc.

### **3.3 The possibility to have influence on the “bad legislature,” to affect the claim and requisition of law, to possibly obtain credits from banks with better interest, and to have influence on high taxes and high transfer payments on wages**

The network of prime interest must to help in legislation **to provide support for small entrepreneurs to enable novices to start a business**. “*It costs a lot to get a small trade licence, training, qualifications... Unless*

*you have half a million, you cannot start...The way it is done in our country, it is not support, it is liquidation of small businesses...*” says Mr. Marian. **“So far tradesmen have not been invited to participate in law making, and this was also why we joined the SSBCH. In law making, one should communicate not only with large factories, but also with small ones, and with those who are in small business chambers...”** says Mrs. Maria.

*“We need to talk about it and create pressure, and keep knocking on a number of doors, explaining for the decision makers that we do not intend to hurt the Government; we do not want to cause anybody in Bratislava problems... We only want the legislation be all right and everything to function as it should... At the time being, everybody is struggling, doing as good as it gets...”*

Another problem and barrier for entrepreneurship is the lack **of consistency in laws, and** legislative inconsistencies, which do entrepreneurs no good and impede the further advancement of enterprise on a national scale, are seen as the main problems and obstacles. For example, there is an inconsistency between the regulations of the National Labour Inspectorate and those of the Ministry of the Interior. *“It is a huge problem. The National Labour Inspectorate would issue a regulation, the Ministry of Interior issues another regulation, and the two go against each other.”*

**Or to obtain credit** *“Take me, for example. I needed a credit two years ago: one million crowns... I had been to 15 banks but I was not granted a loan. Here a man cannot get a credit unless he has got property and he cannot start a business unless he has got some money... If you want to take a loan your property for guarantees must exceed the amount you are to borrow by two-thirds ... where is the common sense? Banks are not to help a man; they are only to flay him...”* says Mr. Marian.

Mrs. Maria sees great financial burdens incurred on entrepreneurs due to high **transfers to insurance and social funds, as well as the bureaucratic and unhelpful work of the state apparatus** to be the major barriers to enterprise. *“...For example, I must pay the VAT for the purchased raw materials immediately, while I get paid for my products only in two months. I transfer almost 50% of an employee's wage monthly to funds in respect of every employee... We are enormously burdened with taxes and insurance transfers, which get increasingly worse in business. All those transfers are an enormous burden.”*

Mrs. Maria from Skalica adds, *“We are also burdened with **municipal fees**. We pay the city 5% of the annual turnover on alcohol and cigarette sales. It seems too high to me, moreover nobody tells us where the money goes. They will tell you, it goes to the city budget. And there it is drowned, lost. We would like to influence that too, as entrepreneurs, how that money is going to be spent...”*

Another member of the network says: *“We do not have very high taxes. Everybody who is a bit clever knows how to do it not to have to pay high taxes. But the transfer payments on wages which need to be paid—that is about 50% altogether. That's too much. Every wage is thus for us, businesspersons, 50% more expensive. There the state must do something about it, because then everyone speculates how not to pay officially high wages.”*

### **3.4 The consulting activities**

But the work in the Chamber also means that people will come asking *“...what are you going to offer me in return for becoming your member?”* *“We offer those members that are interested in chances to meet politicians ‘at a higher up level,’ **organizing seminars on new legislation, tax regulations, car transport regulations...** refuse, safety at work... to which we invite experts.”*

Mrs. Maria is also convinced that the chambers should directly influence the **training and education of young apprentices**, and should subsequently help them in getting first jobs. *“...There should exist different professional and advice centers for entrepreneurs, where they could get further education and training.*



*Chambers could provide loans... There are plenty of opportunities for cooperation... But the chamber has got no money and thus it all fails.”*

### **3.5 The fight against bureaucracy and corruption**

*“The state administration makes problems in handling anything. But everything is about people. In Piestany, in the district component of the office where I file licenses, there is excellent cooperation, but in the commercial register, it took them half a year to enter me as a legal person. There's no logic, somebody wants to start a business and for half a year they keep him from doing so... everything is about people...”* says Mr. Marian.

*“As for the state sphere, where they could help us? First, we would need cheap credit. Nobody will give it to us. Then, if we have some problems in dealings with the state administration, or justice, or somebody, who is to help us? Not only here, but us as entrepreneurs in the first place? Everybody is just beating us...”*

Another problem is **great bureaucracy and corruption at the municipal, district and national levels**. Mrs. Maria from Skalica says: *So far we see nothing, no laws, which would help us; I think that everything is against enterprise... I found nothing beneficial for us in the laws... When I want to employ a worker, he has greater advantages than me. I believe, for example, that working books should be reintroduced for employees, for the sake of better records, an overview of where they worked and how... In Labour Offices one finds enormous bureaucracy... the same applies to the Small Trade Office. They will issue a trade license to anybody without communicating with the SSBCH, whether there are plenty of us or not. But if you want permission, or I, they would send you running from one office to the other... you need to wring it for you all right...As with us in catering... we are expected to sit for examinations, they want certificates of apprenticeship from us...but I would like to see the certificates of those Chinese in their restaurants...”*

This is connected **with corruption at all levels and the legal helplessness of “the small” against the almighty and corrupt bureaucrats**.

*“What is crucial, such rascals will buy all those whom they need. They have money enough for it: police officers, and the clerks, all of them. Tax officers will not control those people.... Yet, the authorities should have equal treatment for us all, and come for checks to all equally. The Chinese, and the rascals, at least every third year... and not only come to us...”* says Mr. Stephan.

*“Or when the inspectors come for state commerce inspection...”* says Mrs. Maria, *“...You can as well get your money ready for their pockets, or else... They will tell you beforehand, how much they want... if you don't give, they will find such things, you would not dream of... The greatest corruption is in tax offices and the state commerce inspection... There is nobody who would defend us. You won't take a lawyer. He is too expensive... And even if you are in the right, you would rather leave things alone...”*

### **3.6 The deficit of communication between the entrepreneurs and politicians, the legalisation of all relationships of the Chamber, and improvement of the relationship with own towns and regions**

*“The foundation of SSBCH by statute is a change of great significance”* he says, *“...because no chairman of any political party, or minister, or even the mayor is likely to talk to you as a small trade licensee...”* says Mr. Robert.

**“The Trnava Chamber works closely at municipal and regional levels.** On the municipal level, a joint strategic plan of the city's economic development has now been drawn up, which also covers the development of small and medium-sized enterprises and the improvement of conditions for investment...”

In September 2001, the mayor of Trnava, together with the local branch of SSBCH and other

organizations worked out a common **program of development for the city**: “The strategic plan for the economic development of the city of Trnava” determined four critical areas of the city and the main potential growth factors for the economical development of the city, which are:

1. Development of small and middle enterprises, which are the most dynamic and socio-economically most significant structural elements of a modern market economy;
2. Obtaining of new and improving conditions for existing investors;
3. Developing enough qualified and flexible labor power;
4. Improving of the attraction of the city.

In the area of development of small and middle enterprises, which is most important for the purposes of this study, a goal was set **to create better conditions for SMEs and intensify cooperation between SMEs and big companies, with a concentration on the development of the travel industry. The analyses state that one of the main negative signs of small and middle enterprises in the city are their small organization and meager mutual cooperation and trust.**

To overcome this situation, the Chamber of Economics and Industry and the Slovak Chamber of Trade will found, in cooperation with the city, an Information Center for small and middle enterprises, which will provide information about SMEs and help them realize their developing programs. Another goal is to create an offer of spaces for small and medium enterprises, and their provision by SMEs, mainly with a focus on enlarging the offers and the level of opening up of the services of the travel industry. In this area, the city will stimulate the establishment of an association for the development and improvement of the quality of activities and services of the travel industry in Trnava and surrounding municipalities, to include the activities of the city’s Information Center.

**The improvement of communication** between the entrepreneurs and politicians and the legalization of collaboration between the Chamber and entrepreneurs **and the local government and politicians** is an important aim of activity for the actors of the network in the small towns and in Trnava as well.

**The network actors from Trnava say:** *“Many people understand how little influence small and medium-sized enterprises have on the city and the region... The vicinity of Bratislava, for example, has a positive effect upon trade and services “...many people work in Bratislava, there are higher earnings, they live here and here they spend their money shopping... We have quite large communities in the region that are relatively rich... Then universities that can be felt in services for people who teach or study at universities live here, and once they graduate they stay on working and living here. Educated people stay and live in the city... This is what many people are not aware of...”*

*Also the motorway, railway, and good infrastructure all have a positive effect upon enterprise... The feeling of loss of identity and citizenship and alienation owing to commuters to Bratislava is not a real threat to Trnava. It has always been very locally patriotic, in football as well as in its attitude to nature. There are the Carpathian Mountains... It is rather Bratislava that does not offer one the feeling of a citizen’s identity.”*

**The network actors from the SSBCH in the Skalica district branch complain**, saying they have no representation in the municipal parliament and cannot communicate with the city. Although Mrs. Maria is on the trade committee of the Municipal Office in Skalica and she could raise problems and pains of individual entrepreneurs and tradesmen, in reality it does not work... She explains: *“When we wanted a room for the meetings from the city, they wanted us to pay. The city is not outgoing in any way. Instead of being happy about the chamber working here, they do not cooperate... These are also the type of things we struggle for, but*

*thus far we have not been able to set ourselves forth in the municipal council. Now we're trying it through our candidates for the election... we have nice people there..."*

Mr. Stephan is one of the candidates for municipal councilor. He says: *"Now, before the election, we started inviting the candidates to our meeting, telling them we would like to talk to them on behalf of the chamber. We would like to hear from them directly about what they intend to bring about for small business and enterprise in our city. We told them about our problems, about the cooperation with this city not being what we would have expected. The election is coming closer, so we'll see after the election, once we have a new city mayor... Here there is no continuity of government. When the government changes, or the minister, but also the city or community mayor, everything is changed, and you need to start the whole thing all over again..."*

## **5. What has succeeded, and the future of the network**

Although the Trnava region consists of seven districts, to date SSBCH has managed to get established only in the Skalica district, where there is already a district branch. The regional branch of SSBCH and its members are about to set up branches in the Piestany, Hlohovec, and Galanta districts—where district branches should be formed in 2003—and in Skalica and Dunajska Streda by the end of 2004.

The regional Chamber takes part in common activities together with the town management and local government of Trnava, and probably in the town of Skalica as well.

Owing to the activity of the SSBCH regional branch, the Chamber did achieve some success in this field as well. A request came from the Ministry of Finance asking SSBCH to provide its expertise on tax reform issue, and the Ministry of the Economy promised to consult with the Chamber on the drafts of further legislation, etc.

## **6. Summary**

The major shared objective the network actors have in common is their effort to enlarge the membership of the SSBCH, and to strive toward the setting forth and ultimate realization of the interests of the enterprise.

The present activities of the SSBCH regional branch are focused on legitimizing SMEs, and both the formal and informal legalization of their own organization—the SSBCH.

The individual routes and specific complementary tactics of the members of the informal network and those of the new, formalized SSBCH branch, are at the same time specific and vary considerably. The overlapping of different activities and multiple networks that we can observe in all the actors under study is a suitable framework through which these entrepreneurs and their networks might influence legislation and regulations regarding the crucial interests of small and medium-sized enterprises, not only in their particular region but across the whole of Slovakia as well.

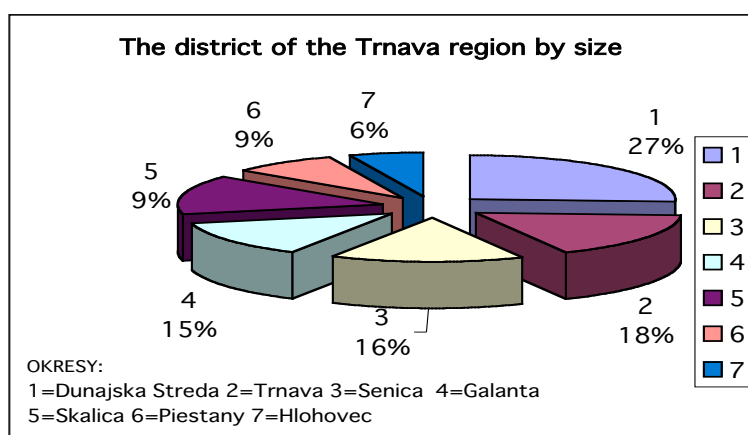
**Appendix - The socio-economic characteristics of the Trnava region and the selected relevant districts.**

**The region of Trnava** has 547,733 citizens, half of whom live in small cities, of which the largest is Trnava, with 70,284 citizens.

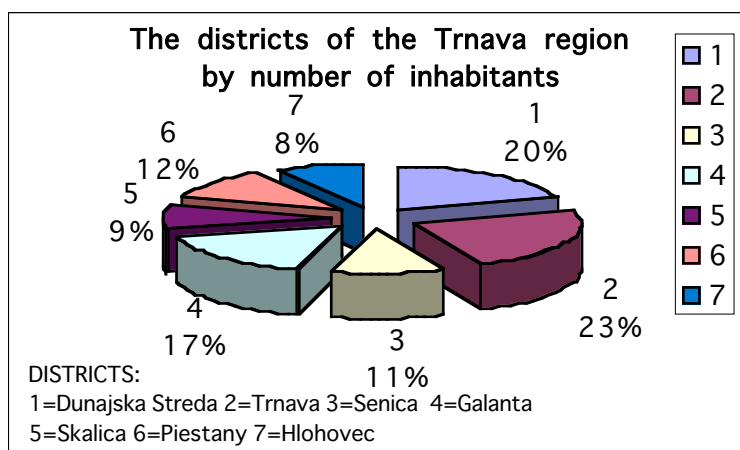
The region is made up of very different and relatively distant districts with complicated mutual connections. Engineering and the food industry, which is based on the processing of agricultural products from south Danube valley districts, dominate the economic structure of the region. **In the year 2002 in the region of Trnava, there were 39, 920 enterprises with valid trade licenses, of which 32,626 were actual people, and 7, 294 were legal entities.**

The Trnava region consists of seven districts—Trnava, Dunajska Streda, Senica, Galanta, Skalica, Piestany and Hlohovec.

**Graphic No. 1.**



**Graphic No. 2**



**From the point of view of the investigated enterprising network and its participants, the most important are the city and the Trnava district itself, as well as the Dunajska Streda, Piestany, Skalica districts.**

**From the aspect of number of citizens**, the biggest district is the district of Trnava, which contains 23.1% of the citizens of the region, and 18% of its area. Of the total of 127,100 citizens of the Trnava district,

70,286 live in the single city of Trnava, making up 55.3% of the district population. The district belongs to the most industrialized districts of Slovakia, and also has excellent conditions for agriculture, and the agricultural processing industry. In the district of Trnava in 2002 were 8,653 enterprises with valid trade licenses (21% of the entire region), of which 6, 926 were actual people, and 1,727 legal entities.

**The biggest city and the district center is the city Trnava**, which is one of the most important cities in the Slovak Republic. Nowadays, it is part of the Trnava region, Trnava district, and Trnava self-governing territory, a so-called Higher Territorial Unit (HTU). Trnava was, and remains, an important cultural and religious centre with great number of churches and religious institutions. Presently, the city has three universities—The University of St. Cyril and Metod, the Trnava University, and the Materials Technology faculty of Slovak Technician University.

### Enterprises in the town of Trnava

Total enterprises in the town of Trnava 5,713 = 100%									
Actual persons			Legal entities	By number of employees					
4,393 = 76,9%			1,320 = 23,1%	0 - 19	20 - 49	50 - 99	100 - 500	more than 500	No information
Tradesmen	Private farmers	Freelancers		3,822 66.9%	65 1.1%	54 1.0%	40 0.7%	11 0.2%	1,721 30.1%
4,138=94.2%	50=1.1%	205=4.7%							

**The most significant companies of the district** are mainly the companies located directly in the city of Trnava, where 29 companies, which have more than 60 employees, are located together. The most significant are TAZ Sipox, Inc. (production of utility cars), Sachs, Ltd. (production of clutches for trucks), \_OS, Inc., and Mona, Ltd. (production and maintenance of wagons and containers for railway transport), Skloplast, Inc., Trnava (glass fiber), and SONY Slovakia, Inc. Finally, Trnava was allocated one of the biggest investments in Slovakia—the factory for producing middle-sized Citroen / Peugeot cars.

Furthermore, other companies operate in the district, such as Chemolak Inc. in Smolenice, which produces coating compositions and other products. The food industry is represented by Trnavsky Cukrovar, Inc., GIM Company Ltd. Produces malt, the company Kabát Ltd. processes meat, and Hydina, Inc. runs a poultry factory in Cifer. The Slovak-wide importance of energy is represented by the nuclear power station operated by Jaslovske Bohunice, Inc.

**The economic life of the city Trnava** in the year 2001 included 66% of all the legal entities in the Trnava district, and 14.3% of the entire region.

**In term of the sectors of economic activity**, 2.1% of economically active inhabitants were employed in the primary sector, 43.2% in the secondary sector, and 54.7% in the tertiary sector. By the end of the year 2001, there were in Trnava, 8,884 unemployed people, i.e. 12.7%, who were mainly skilled persons and people in age from 19 to 24 years.

**In the city is a greatly developed financial and bank infrastructure**, with 15 ranch offices, expositures, agencies and chain offices of eminent banks, and 18 branch offices of various insurance agencies.

**The average nominal monthly salary** in the city, and also in the district of Trnava, is **higher than the Slovak-wide average** in major industries, and in 2001, it was at a level of 13,916 Sk (according to the actual exchange rate on January 2003 = 365 USD), which is about 5.4% more than the Slovak-wide average.

**From the point of view of the discussed enterprising network and its participants, is the next largest district by area in the Trnava region—the district of Dunajská Streda.** The district makes up 27% of the area of the Trnava region, and has 111,100 inhabitants, i.e. 20.2% of the region's inhabitants. In the district of Dunajská Streda in 2002 were 9,234 of enterprises subjects with valid trade licenses (23.1% of the entire region), of which 7,616 were actual people and 1,618 legal entities. In the district of Dunajská Streda live the most residents of Hungarian nationality among all the districts of Slovakia—87.2%, with only 11.3% being of Slovak nationality.

The economy of the district is predominately made up of the agriculture and food industry, which is already traditionally focused on processing principal agricultural products—the sugar beet, corn, fruit, meat and milk. Juhocukor, Inc. operates the largest processor of sugar beet and producer of sugar in Slovakia in the town of Dunajská Streda in the center of the district. Industrial production is of marginal importance; more developed are some trades and crafts. The largest and most significant water power station in Slovakia is located at Gabčíkovo on the Danube River. There are very few job openings in the entire district, which has created a large migration of workers, mainly to Bratislava, located 40 km away.

**The Piestany district** stretches over 9% of the total area of the region, and has 64,079 inhabitants, i.e. 11.8% of the population of the region. In the district in 2002 were 5,322 enterprises with valid trade licenses (13.3% of the entire region), of which 4,081 were actual people, and 1,241 legal entities.

The population lives in 27 municipalities, of which only two have a “city” character. In the most important center of the district, in the city of Piestany with 31,089 inhabitants, are situated almost 49% of the inhabitants of the whole district. The city with its adjacent medical baths is a world-famous center of the travel industry, sport and recreation, and equally of culture, music and art. It has a well developed tertiary sector, mainly travel industry services, but also production of medical technology by the company Chirana, Inc. The biggest company in the district is Trikota Vrbove, which produces knitted textile. In the district also operates the Madunice hydro-power station, which is one of the systems of energetic water cannons on the river Váh.

**The Skalica district** stretches over 9% of the total area of the region, which has 46,550 inhabitants, i.e. 8.5% of the total population of the Trnava region. In the district in 2002, were 3,383 enterprises with valid trade licenses (8.5% of the entire region), of which 2,748 were actual people and 635 legal entities.

Of the 21 municipalities in the district are three center with “city” character—the district town of Skalica with 15,000 residents, Holic with 11,399, and Gbely with 5,249 residents. Alongside the high portion of inhabitants of Slovak nationality (94.8%) in the district, live distinct minorities of Czech nationality (3.5%) and Roma (Gipsy) nationality (1%). The industrial potential of the region concentrates itself in its three largest towns—Skalica, Holic and Gbely. Skalica was the traditional center of trades and markets, and in the present has important businesses, including Grafobal Inc. and Adox Inc. from the polygraph industry, and a ZVL, Inc. bearing production factory. Holic's main employer is linen and hemp factory LKZ, Inc., and it also hosts shoemaking company ZDA. In Gbely, Nafta Gbely, Ltd. is the most significant miner of oil and natural gas. The region also has significance in international transport.

## **8. Informal Cooperation Network of Local Carpenters in Dunajska Streda (Slovakia)**

Zdenek Stantny

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**Legend:** “...I think that carpenters have a good reputation here... They are such normal people..., but in the district we also have entrepreneurs who do business, but no work... And at the same time they have lots of money... and Mercedes cars... and one needs to say no more...”

### **1. Introduction**

This study will be predominantly about how local carpenters cooperate and how they can obtain and handle large orders... But it will also be about their fate and their history and also about how employees who apart from their job also worked at home, doing under-the-counter handiwork, and about how these employees became independent businessmen. Also about what they had gained and lost. About the value of their independence... About how and why they have organised their life the way they have...

It will also be about the current economic situation and small businesses, with which these people now live... About how they fight bureaucracy, the authorities and regulations... But also about how they like carpentry... And how sweet wood smells when you cut it...

### **2. Economic background of the Dunajská Streda district and carpentry**

The economy of the district of Dunajská Streda has always been, and still is, dominated by agriculture and the food industry, which processes agricultural products, particularly sugar beets, grain, fruit, meat, and milk.

During socialism, both the district town and its villages had a well-developed handicrafts industry. Significant carpentry production operated right in the town of Dunajská Streda, along with several state-owned community as well as cooperative enterprises where many people not only from the town, but also from the nearby villages, worked. In connection with the woodworking businesses, a training center for carpentry apprentices and a technical carpentry college were established and remain in existence even now.

The largest of the carpentry businesses was the state-owned carpentry company ISTER, where the majority of the current new private entrepreneurs in woodworking processing had previously worked. Most carpenters in the town and its surroundings know each other from the time when they used to work together in this company.

The company fell apart and later became totally bankrupt, like many other businesses, during the process of transformation and privatization from 1990 to 1994.

The district of Dunajská Streda is the largest by territory in the Trnava region, occupying 27% of its territory, and its population is 20% of the total population of the region. The district has the largest proportion of ethnic Hungarians among all of the districts in Slovakia—87.2%, and only 11.3% of them are of Slovak nationality. The center of the district is the town of Dunajská Streda, with 23,791 inhabitants, but almost 60% of the population live in small villages.

Apart from in agriculture, there were few employment opportunities in the district, and therefore there has been, and still is, significant job migration, especially to Bratislava (45 km away) and Komárno (55 km).

### 3. The past for the future

It is well known that under socialism the predominant method of production—not only in this district, but in general—was the mass state “socialist” large-scale production. Private enterprise was not allowed; small businesses originally owned privately by shopkeepers or craftsmen were nationalized, and their owners were forced to find jobs elsewhere.

However, along with the increase in the quality of life came a rise in demand for craftwork, and the services of craftsmen and their products. People wanted or needed to have made, or mended, many “small things,” which were not of interest to the “socialist mass production.” There was a lack of craftsmen, people who could repair things, as well as small-scale producers.

Production of individual orders and craftsmen capable of small reparations were not profitable for socialist large-scale production, and also difficult to organize. Small-scale production, repairs and services either did not exist at all, or were very limited and usually of low quality and expensive.

**A spontaneous solution to the lack of these crafts and services was “under-the-counter” handicrafts.** It was well known and widely spread that skilful employees of various state businesses earned a little extra money by providing various services and handicrafts in their free time. Some of the material they needed was bought in craft shops, but most of it was rarely of completely legal origin. Generally the necessary material was “bought” cheaply from employees of other companies whom the carpenters knew, and who worked with it or had “organised” it in their own companies. In the company environment dominated by disorder, confusion and low working discipline, it was often possible to use the factory machines for such “private” work and even to carry it out during official working hours.

Such activities may have been officially criticized, fought against and illegal, but they flourished nonetheless.

The fulfilment of the existing need for crafts, small-scale production and services necessitated the establishment of “**socialist industrial small-scale production**” in some ideologically acceptable “socialist form,” which would not be totally “socialist” but neither too “private” or “capitalist.”

This “ideological compromise” took the form of various **institutionalized “alternatives” to private small-scale production—“cooperative societies” and “municipal enterprises and service providers,” and later the so-called “non-agricultural subsidiary production” in the then agricultural cooperatives.**

**The overall consequence** of these circumstances **in the case of the town and district of Dunajská Streda** was that many carpenters from the region who were officially employed in carpentry production had small private workshops at home where after work and on the weekends they would repair and also produce things people needed. This spontaneously existing “grey market economy” was **not only a useful source of extra income**, but also a good **professional and social practice and preparation** for the future “market economy.”

Nowadays, however, the industry as well as agriculture in this region is in a recession. Privatization and the era following “privatization” saw a collapse of industrial as well as agricultural production. The owners of small businesses suppose that this is above all the consequence of political protectionism and the “untransparent” privatization process, which had at that time been introduced by the government led by the



HZDS party and their coalition partners.

*“There has never been much industry in our district... Over here it is, and always has been, an agricultural region devoted to processing what agriculture produced... Agriculture here now is the way it is; we all know that... and really, the same applies to the processing of agricultural products... And it is certain, that even if they produce something, they do not know how to sell it, and even if they do sell it, they do so for prices that are even lower than production costs...”*

*“And the largest carpentry business that used to be here, ISTER, used to employ about 600 people. That is where we all used to work. That is where the production of furniture ‘for the West’ started, back then, during Communism. For the company IKEA... Many goods were produced there. It is a shame...”*

*“And the other larger firms, which used to be here, they also no longer exist. They vanished... A construction company from Nitra used to have a panel factory here, which closed down a meat processing factory, closed down... The company ISTER vanished... that means it has been privatized and has been literally ‘stolen apart’... And there are very few new job opportunities...”*

After the dissolution of ISTER and other companies, many former employees have turned independent and started to run their own businesses. Gradually, smaller carpentry businesses have come to life, owned mainly by professionally able, trained carpenters and former qualified production foremen.

*“The first time my former company was privatised was in 1990, then again in 1992... In doing so, it has of course been ‘stolen apart’... after that, we left...”* says one of the carpenters.

*“So we **had to** leave. After that, everyone worked as they could. Some founded their own companies, some work for their former colleagues from ISTER, some are unemployed, some work at home, under-the-counter...”* says one of the newly independent carpenter-businessmen.

**In spite of all the problems, certain prerequisites for the activation of private enterprise, and particularly for carpenters’ enterprises, were established.**

One can say that several favourable circumstances have in the past worked together for, and contributed to the benefit of, the current development of private carpentry production and the carpentry craft:

1. A large carpentry business operated in the town, which employed skilled workers, mainly carpenters and upholsterers;
2. The carpenters had sufficient knowledge and skills, as well as opportunities in terms of materials and space, in order to work at home in the so-called “grey economy;”
3. The local training center and technical college provided a permanent source of new and qualified carpenters;
4. However, in the town and its surroundings, the number of job opportunities for qualified carpenters was relatively limited, and thus job migration was significant. It was directed into companies, which needed these professions. Many production, consumer and agriculture cooperatives, which often took on carpenters, operated within the reach of the migrating working population.

**All these facts and their overall consequences formed the present in both a positive and a negative way.**

**Some of the employees of the former state companies mobilized themselves and started to earn their living independently...** Until the year 2002, 9,234 enterprises with a valid trading license had been established and operated in the district of Dunajská Streda, of which 7,616 were actual people and 1,618 were corporate entities.

**Some have adapted to new circumstances in their own way and moved their life elsewhere... They are unemployed and live “as they can”...**

Bad social policy of the state does not motivate the unemployed to work, and insufficient control mechanisms enable them to defraud without punishment.

For example some of the “unemployed” who live in the countryside and have land and small foil greenhouses grow vegetables on a large scale and sell them to traders. They often work under-the-counter and at the same time receive unemployment benefits. They cheat the state as well as themselves.

*“It is said that the town and the whole region has a high unemployment rate... But that is largely artificial unemployment... Most of these people do not want to work at all. In this country it is more comfortable to be unemployed. They receive almost the same amount of money in the form of unemployment benefits as they would if they worked, and at the same time they work illegally in Austria and Hungary, or for example for you at your building site... No one controls it and it has been running like this for years... people no longer value work...”* businessmen say.

*“Maybe in other countries and in large companies the unemployment creates pressure and people appreciate their jobs because there are other people waiting for jobs at the gates. But not over here... here it does not work like that yet...”*

#### **4. Partner carpenter companies and their characteristics**

*In Slovakia, carpenters’ businesses are small, they have a maximum of 10 employees... and over here in Dunajská Streda there are about three of us now... similar carpenters’ businesses where we know each other... Each one has about 10 employees... We know and help each other...*

**The central, although not the largest of the companies of the network, is Alpha Carpe N.T., Ltd**, owned by **Mr. Aurel**.<sup>47</sup> He started to do independent business in 1992, is 50 years old, and married with two adult daughters. Originally he worked as a production manager in the local carpentry company ISTER, and he was also a foreman of assembly operations abroad... *“ISTER was such a good company, we had to set up foreign subsidiaries... in Bonn, Moscow...”* says Mr. Aurel.

In spite of the fact that he had quite a lot of money at that time, he worked “both ways.” In his job as well as at home, under-the-counter ... *“Of course... I too started to work privately at home...”* he says *“Under communism, when someone wanted to have something made, or fixed, they did not go to a large company... at that time there were only large companies and they were not interested in those kinds of orders. The people went to a carpenter they knew, and he did it... I too had some machinery at home... and I used to produce small items at home.... The material could be bought very cheaply...”*

After the dissolution of ISTER, Mr. Aurel, like many other carpenters, went independent and started working as a private entrepreneur.

Initially, he had bad luck choosing his associates.

*At first, we founded a company with limited liability. I was the agent and I also had four associates. But once the business started to do well, we fell apart. So I said to myself, ‘from now on, I will do it alone...’ We disagreed on several things... You know, many businessmen even today behave like those who worked under-the-counter... **When they earn money, they spend it straight away... They do not invest the money reasonably back into the company, but they spend it on useless things...***

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<sup>47</sup> *The names of companies and people have been deliberately changed.*

*For example... they buy the most expensive car for the company... although in fact an ordinary utility vehicle would do...*

At present, Mr. Aurel in legal terms owns both types of trading licenses, as a sole entrepreneur, as well as a Ltd. company... He deals with the production of made-to-order furniture. He employs seven workers and he also has nine apprentices.

*“But we also have apprentices, because we too are getting older.... And if we want a new generation to succeed us, that they are able to follow in our footsteps, continue what we have started..., we have to take care of new ones...”* he says.

When necessary he works in the workshop himself. *“Yes, certainly, when necessary, I go and stand by my employees, it doesn’t work without that. He who leads must be the most reasonable, most skilled... I must be able to understand everything... If a carpenter comes up to me and asks, how is this, I cannot tell him that I do not know... I must know it, the technology, as well as everything else.”*

In his firm he also employs his wife and one daughter. He took out a 1.5 million loan at the beginning to have some initial capital, with which he financed the purchase of land and also built a new, modern manufacturing plant, as well as a sales stock warehouse. *“Only outlets need large warehouses... I only purchase as much as I need... Also, I try to store both finished products and material for as short of a time as possible... I only produce to order, and when I make something, we install it straight away. We don’t store it. I have not yet made more than 3 pieces of any one type...”*

Another partner of the carpenters’ network is the company **Beta Carp Ltd., owned by Mr. Valent**, who is 53 years old and was also originally employed in the carpentry business ISTER. He lives in a small village a couple of kilometres away from Dunajská Streda. His professional career was strongly influenced by family tradition, because both his father and his grandfather were originally carpenters and wheelwrights. His father’s company was nationalized after 1948. He started a private business in 1992, in what was originally his father’s workshop, partly also using his machinery and equipment. At present he has modernized his production and built new workshops, and in his company he employs eight workers and trains seven apprentices. His 24-year-old son, who not only is a skilled carpenter, but has also graduated from a wood-processing college, also works in the company. The company produces mainly interior furnishing, and sometimes carpentry products such as windows, doors, doorframes and so on.

The third company from the network is a joint venture, **Twins Carpe, Inc.**, owned by two brothers, **Gejza and Stefan**, from a village near the district town of Dunajská Streda. The younger brother, Gejza, will turn 50 this year, and the elder brother, Stefan, 54. They founded their own company in 1987. Previously they had worked for the large carpentry business FURNI COOP in Bratislava, where they also learned their craft. They used to work weekly shifts in Bratislava and commute to the city.

*“In Bratislava, one earns more, but you must be there at seven in the morning and it costs a lot. Here, it is nearer and cheaper for our employees... I know how it is, we used to travel to Bratislava, too... the amount of time we spent traveling, and it also cost a fortune... we would travel for as much as 5 hours every day...”*

Later, when they both got married, they wanted to live closer to their families, and therefore they went to work in Dunajská Streda. They worked for a large company, CONSUM COOP, which operated restaurants, pubs and shops in villages throughout the district. They made and repaired furniture for the outlets and restaurants of this company. However, the company did not have the tools or the equipment necessary for such jobs. Therefore they bought the machinery one by one themselves, and worked as “sub-suppliers” for the company in a small workshop that they had set up on the premises of their own house. Occasionally they would also make and repair smaller pieces of furniture for other customers in the village and its surroundings.

After 1987, they started to legally run a private business. Now they employ 17 workers and several apprentices. They also employ another brother, a sister and her son and each of the owners also employs one son, who are both skilled carpenters. In general they make complete carpentry furnishings for interiors, wooden wall tiling and kitchen units.

## 5. Emergence of cooperation

### 5.1 The birth of a network

**Just like elsewhere, new entrepreneurs in town and its surroundings had to resolve several issues connected with their businesses. Particularly at the beginning of their independent career, but also later.**

**Gradually, the carpenters themselves came to realize what was possible and what was not.** Some problems, which are linked with “big politics,” and the whole national economy, cannot be solved by the cooperation of a couple of allied craftsmen. Such problems can only be solved by a countrywide organization of carpenters.

**An opportunity came up to establish their own organization and join the Slovak Carpenters’ Guild.** Based on the initiative of Mr. Aurel, this group of carpenters founded a local **Carpenters’ Guild** in Dunajská Streda. It forms a part of the **Slovak Carpenters’ Guild**, which is an independent professional corporate organization that was founded in 1992 in Zilina, where its secretariat is still located. 280 companies, together employing almost 10,000 workers, are registered members of this countrywide guild.

Local carpenters joined the Guild, hoping that it would help them overcome some “great” problems in business, and that with the help of such a countrywide organization, they would be able to have influence on some societal barriers that represented obstacles to the development of small and medium businesses in Slovakia.

*“And I was just the person who tried to get together, for the sake of carpentry, the old lot of carpenters in Dunajská Streda and the neighborhood... Particularly through that Carpenters’ Guild... I am the ‘vice president’ of the Guild... And we try to help each other through the Guild in matters in which we cannot help ourselves...”* says Mr. Aurel.

This local Carpenters’ Guild was founded by five carpentry businesses in 1994, and started functioning rather successfully... *“Within the guild, we get very specific and useful help... Not just talking about the ways of getting money, but also professional help,”* says Mr. Aurel.

The Guild helps in cases when an individual cannot, or does not, have money, for example in education. *“People attend 2-week-training courses in Germany, specializing for example in the manufacture of staircases or inlaid work... I had one of my foremen attend them and I also attended one... The study material for the foreman course had also been translated from German to Slovak by the Guild... But it would be good to continue that. However we do not have the money for it, because until now, it has been financed by the Germans. Unfortunately.”*

**It was also proved in this case that it is necessary to respect the principle of subsidiarity.**

**An organization is an “organization.”** There are many people and many interests; the organization’s work is complicated; goals are long-term and can only be achieved very slowly. A **small, informal network** on the other hand is merely a group of people, with **only limited local impact**, and the capability to solve only relatively “small” and very specific objectives.

**Lack of material, or a quick and correct dispatch of a large order—these problems are better**

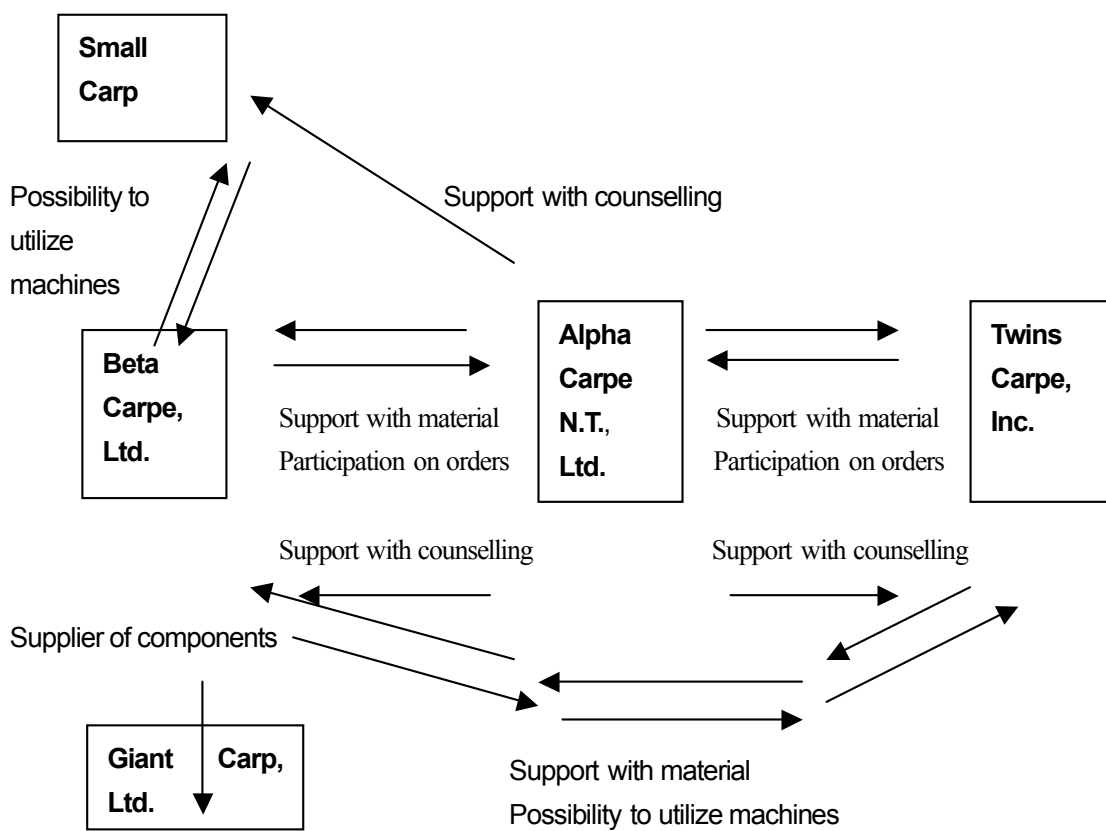
solved by a small informal network.

Obtaining financial sources for study books and for small loans for entrepreneurs, or preventing the authorities from unnecessarily obstructing small businessmen—these tasks, on the other hand, are better handled by a large proprietors' association or a Guild.

Everyday entrepreneur life requires the solution of many practical problems. And that is where personal experience, personal example and specific help is needed, based on acquaintanceship, on trust, and on personal relations.

That is why carpenters spontaneously started to cooperate and help each other. That is why the network has come to life.

### The Structure and Functioning of the Network



#### The size of the companies:

Alpha Carpe N.T., Ltd. = 7 employees

Beta Carpe, Ltd. = 8 employees

Twins Carpe, Inc. = 17 employees

Giant Carp, Ltd. = 50 employees

Small Carp = 3 employees

## 5.2 Local informal collaboration – exchange of experiences

They started to advise each other and pass on their experience. **Particularly when it came to “negotiating” with the authorities and to the processing of various permits, licenses and similar documents, which the state administration requires entrepreneurs to have...**

*“For example, I try to help others in that which I have already mastered... I tell them... I have this know-how and experience, pay attention to this... I warn them. I cannot do it instead of you, but someone has to start and smooth the path and show how it can be done...”* says Mr. Aurel. *“We have been working like this, informally, since the beginning... since 1992.”*

One of the great problems has always been and still is **the bureaucracy of the authorities and institutions**. *“Each one of us carpenters had to build or reconstruct workshops, warehouses, for example... Here in the town we have a surveyor’s office... but to get an operating license I need to have many things, just as it is written in the laws... But at the same time the laws are... you know... one can go this way but also that way... I could help you, if I wanted to... you would not have to go to Bratislava to sort out something that can be arranged also here by the local authorities...”* says Mr. Aurel. *“But they rather say ‘Sorry, we cannot give you the permission, because you do not have these and those records, and you need to go there and there to get them...’”*

This kind of experience needs to be passed on; a colleague will be able to save him the travel and the time; he knows what to do and what not to do... But often it is pointless...

*“For a carpenter’s workshop, hygiene is very important... However... I had to go to the Ministry in Bratislava in order to provide the protocols confirming that the coating composition I use is suitable... Although it would not have been imported to Slovakia without a certificate had it not been tested and proved suitable... without that, they would not have released it into retail or wholesale... And it was me, who had to ask for certificates everywhere and who had to prove that it really is the material of class E1 with formaldehyde emissions at this and this level... For what? Why do they beat us like this?”*

**Similar bureaucracy surrounds the unfortunate certification.** *“I have just done my product certification... In spite of the fact that I make atypical carpentry products, I had to get a certificate for each one of them, and they cost over 50 thousand crowns. There too I had to prove that this wood screw, that bolt, which I use, that they are suitable, approved, good... But the material I use is exactly the same as what they produce in Bucina Zvolen and God knows where else in Slovakia... It is already on the market, it has been approved, but we still need to have it approved once again...”*

The firm of brothers Gejza and Stefan has similar problems. *“Nowadays we need to have certificates for all our products. When we make an atypical chair, we need to get it certified...”*

**What is my experience with the authorities?** *“I do not like dealing with the authorities. Although we pay everything properly, just once we were late with a payment of whole 96 crowns. After three days I received a 100-crown fine for each day I was late... Some don’t pay millions but we are chased for 100 crowns...”*

Some companies also had problems with “bad legislation,” which does not protect the honest from the dishonest, and with the low level of **law enforcement in court**. They say: *“We had debtors, too... We purchased material, but the customer did not pay us for it. By the time it was sorted out, the firm had vanished... We did not go to court because there was nowhere to go; it would have been pointless...”*

Or working with unfamiliar customers abroad: *“I have tried it with the Germans; it did not work out for me. I made the order as they had wanted it, handed it over; they took it... And left. I have not seen the money since then. Neither the man... I do not have good experience with foreign countries... You will not get justice or money, even if the court proves you right...”*

**In this case they cannot help each other much; they can just warn each other of unreliable companies and “bad” customers. They are all convinced that the courts won’t help them...**

**Law avoidance and insufficient control of observance of laws** persist in small-scale businesses, too. There is, for example, the problem with “black (illegal) work”... *“It is such a bad, unfair and unhealthy competition: Look... The making of a kitchen unit... We are able to make it at a price of about 10,000 crowns per meter. He who does everything ‘under-the-counter,’ he is able to make a meter for as little as 8,000... And he will make more profit than I, a legal entrepreneur, who has all the correct documents... And in our current economic situation, when we have only a very slim chance of getting a better, larger order, it is very bad... Here it is necessary for the state to intervene... to protect us... to punish such negligence...”*

*“No one is controlling them... neither the taxing authority, nor the small business office, nor the health and safety inspectors... no one. They are simply parasites...”*

*...And you know what answer I will get when I officially complain about them? We do not know of them officially; we have no right to send any kind of inspection to check on them... If you want, you can file a complaint... Well I really don’t need that...”*

**But the carpenters think:** *“...if we were living in a wealthier country and we had a strong economy and great demand and good orders, we would not have such problems... It would not bother me then that this or that man is working under-the-counter... But now we are in such a crisis, that actually we do the same jobs... We have only small orders... Both he and I... but he, he also receives unemployment benefits, social benefits and welfare benefits and God knows what else... And he is better off than I...”* says Mr. Valent.

**The carpenters’ guild ought to do something about it, too.** *We have brought it up there, too, because we know of “craftsmen” whose work does not meet quality standards... and damages the reputation of carpenters... But so far nothing is happening...*

**Initially, the entrepreneurs had no chance to get “cheap” loans:** At the beginning, the banks were not willing to give any loans at all to the “small ones,” merely loans with a very high interest rate. They still demand very high guarantees for loans, guarantees which are almost as high as the loan itself.. The economic potential of small and medium businesses is thus weak, and they lack the financial resources for further modernization.

*“Our craft is so expensive that you must have capital in millions even before you start. A carpentry table, which you can use to make quality orders, costs over a million... It is an expensive craft... Expensive, you must invest a lot even to start,”* says Mr. Aurel from Alpha Carpe, N.T.

Brothers from the Twins Carpe company say, *“We have been in this business for really long, but we are only gradually growing... At the beginning, we asked for a 300,000 loan from the bank. We had work to do and we knew we had to finish the workshops and the warehouse... But we also knew that we could pay back the loan fast... They came from the bank, a car full of people, asking why we want it, such a lot of money... we received 200,000. For two years, with an interest rate of 14 per cent. We did not have the guts to bribe someone. Maybe they would have given us more...”*

### **5.3 The further development of cooperation**

**Later, the cooperation developed more intensively. If someone doesn’t have the necessary kind of material, or he needs to borrow a piece of machinery for a short time, the carpenters help each other.** In the case of material, they either borrow it from each other or give advice as to where to get it, and in the case of machinery, they let their colleagues use theirs.

**Mr. Aurel:** *“If someone needs some special materials, for example mahogany wood, we phone each other to find out whether anyone has it, where and by whom they are produced in Slovakia, or who imports it... And it works... Together, we have a lot of information, and then we only have to call the producer or the importer...”*

**Mr. Valent:** *“If one of us lacks some material or needs some kind of technology he does not have, we make an agreement and help each other... For example he does not have a large press, or I need a different machine... We help each other... It is working rather well so far and we have not yet had any arguments...”*

**One of the brothers from the Twins company says:** *“For example, our veneer cutter can only cut to the width of 2 metres, and that of Mr Valent manages 2.4 – 2.5 meters.... if I need something like that, I ring him up and go and cut it... sometimes even when he is not at home we are allowed to go and use it... That is how we help each other.”*

The economic situation in Slovakia is not very good; the competition is significant and local carpenters have trouble getting good orders. Entrepreneurs appreciate every order and have to fulfil them quickly and well. In this group, carpenters trust each other to the extent that when they are working on some larger orders, they work directly together, although each of them operates as an independent businessman. Their cooperation and teamwork in some cases is of a more permanent nature; in others it is just a one-off, or is repeated regularly.

If any of the companies acquires a good reputation, it uses its position and contacts to get “large and good” orders. **“It is all about relationships and information and the need to have ‘a good reputation...’** Only a few get good orders in this country... usually a competition of tenders is announced; one needs to watch it somehow and get to it...”

*It is possible to get a large order legally... But when you have **some good acquaintances** hidden under the counter, **it is much better...** It may be published in the official bulletin; information about public procurement is public... But usually people have been selected in advance, the companies that will get it... And usually the price, too, has been determined... And then these people tell you: Yes, we will let you make it, but it cannot cost more than 5 million.... You need to keep within this limit. **And that is under-the-counter information... Because everyone can apply, everyone who finds out about the order in the bulletin. But you will only be chosen if they know you and if you keep within the price limit...***

**If one of the cooperating carpenters receives a large and good order and does not possess sufficient production capacity,** other partners join in. *“When we get large orders, we cooperate. When someone gets a big job, for a couple of million and does not have the capacity, we join together. We sit over it and divide the work. Our carpentry firms are small; we have a maximum of 10 employees. That’s why we need to agree... You will do that, I will do this, others will do that and we will do it... That is where the cooperation is. We make only atypical products. And in such cases, one producer cannot manage a larger order. Aurel will make the desks, Valent the tables and so on...”*

It works rather well, because Aurel is not the main producer, but the main supplier of the whole order. **It is logical. One would not be able to make so many products, because he does not have such capacity in his firm... he cannot have such capacity... because then he would have to have not seven, but 15 people in the business. But what would he do with them in times when he has no such large order... Then it is of course more reasonable to get a good order, of good value, larger, and divide it among those who are reliable and responsible and who will do it in time and well.**



### **Who is the main player and why?**

The manager of the whole network, of this whole informal group of cooperating carpenters is Mr Aurel and his company. His position is based on his **proficiency and personal authority** on one side, and on his ability to process and use **“social experience” from the past** on the other.

### **Personal dedication and professional education**

*“Carpentry has been and still is my hobby... So I am a trained carpenter, and then I also completed five years at a technical wood-processing college in Komárno and went to school for 500 more hours when I did my foreman exams... and I did all this voluntarily; we even paid for it ourselves... Now in the current situation here in Slovakia it is not worth it yet... having done all that... but maybe it will come to good use later...”*

### **Innovations**

*And one more thing, as much as I can, I buy literature and study even further... He is studying and finding out about the innovations in carpentry, what the new materials are, new technologies, machinery, tools. Now for example diamond tools (disks) are coming to use... I am thinking about buying them, but to pay 28,000 crowns for a saw disk... I have to wait until it gets cheaper...*

### **A carpenter and a company computer?!**

Why not *“We must learn continuously... I started with the literature and continued by myself..*

### **However, special carpentry literature is a problem in Slovakia.**

*“We have a great advantage; here we can all speak Hungarian and the third largest Hungarian city of Győr is not far away. I go there to buy literature. For example this—he shows books—these two books are Hungarian translations of modern German carpentry publications... if our carpenter only learned this much, it would do for all his life. We need a lot of new information... how high I must place a television set, why a stair needs to measure 15x30 cm and no more and no less... We need to know many things, but there is no such literature or information here. In the Czech Republic yes, in Slovakia no...”*

### **Learning from placement abroad**

*“I have learned a lot about organization, but also about quality work, abroad, in Austria, when I worked in 1992 for three months in a carpenter’s workshop, in a village in the Alps, near Innsbruck... I took a good look at everything I could... Not just the techniques and technology of carpentry... that too is of a much higher standard over there... but also interpersonal relations... how to treat the customer... the employee, what trade means and what friendship means... Over here, people still confuse it sometimes...”*

### **Management and leadership of the company and working with people**

*“Most of what I know I learned in the old company... I was a production manager in ISTER, and also installation manager at assembly operations abroad—Mongolia, Germany, Russia... It was mainly about managing people, job coordination, the minimization of problems and conflicts...”* says Mr. Aurel.

### **Network accepts above all his social skills.**

*“The reason why it is so, why we respect him so much, is the contacts he still has from his time at ISTER. He used to go to assembly operations and there he had the opportunity to meet architects who had designed those*

interiors... I was maybe the second or third person to meet them but I wasn't in direct contact with them, but he was..." says Mr. Valent. "And it still works like that. ... Some of the old acquaintances do not work any longer, but some still give us work to do... Or, rather, we give them work and then participate in it..."

### **Leadership legitimacy**

"Authority means doing something useful for the others... When possible, I get work to do not just for myself, but also for others..." says Mr Aurel.

Mr Valent says: "He is 'somebody,' both in carpentry, and as a representative of the Carpenters' Guild... when he reminds the architect of me, saying that we will give this to Valent to do... or when he recommends me and advises the customer that he should use my company, or a colleague's, that means something..."

### **Group legitimacy**

The carpenters' group has already acquired prestige and a good reputation among others. They respect them... "We already have new carpenters, beginners, coming to learn from us and gain some work experience before they go independent..."

### **Trust means deeds, not words**

"When you produce something, it has to be quality, you know... It needs to be of a certain standard. So he cannot give the job to anyone... offer the kind of work we do... if he needs an upholsterer for the realization of the order, he will only give it to the upholsterer he has known for years and with whom we cooperate..." says Mr Valent. "Because trust is difficult to find and easy to lose... Trust of the customer but also within the group..."

One of the brothers from the Twins company says: "For example, 15 years ago we made furniture for one customer and now he came back and wants to order some more, for his children... He was satisfied and we can appreciate that; that is trust... Trust of the customers... We still have some customers from the time back at CONSUM COOP. Yes, people here in the district have known us since then..."

### **The trust between the network members and the extent of their independence**

"Reliability, trust? Naturally. Cooperation is always in a way binding and there needs to be trust too... not just time, quality and value of the job... **Trust is like an unwritten agreement, based on honesty....** when I tell him that I will supply 50 sets, or 500 frames by the fifteenth, it has to work... Because he is counting on it, that Valent is going to supply it until the fifteenth and then I can dispatch the whole order on the thirtieth.... If I did not keep my word, it would never work again... that is where trust comes in... It is also about the fact that we have known each other for a long time... but mainly about the fact that we have so far never let each other down..."

**At the same time, even if we are working on an order together, we remain independent...** "Everyone sets their own budget... So Mr Aurel has so far never told me that I must make this table, or this cupboard set, let's say for 50,000... Never. He merely supplies the sketch and the caption says which part is made of what material and the date of delivery. I do a price quotation... and if he agrees with it, he agrees; if not, he will give it to someone else to do. **But my price quotation, that is also a matter of trust and integrity...** I cannot just write anything I want."

### **All of us still have our own customers**

For example, Mr Valent: *“That Vienna order, I will export furniture alone and our people will go there to install it. Yes, it is my own order... I will arrange everything by myself, I went to take measurements with my son, everything is already being produced...”*

*The customer is a company similar to mine, a construction company... That is one of the reasons why I trust him... He reconstructs and furnishes flats... and when he needs carpentry products... we cooperate.*

*I don't think it will be only a one-off, but that it will last for some time... We make one order and soon someone else will contact us saying he needs something... That's how it works... word of mouth propaganda is working...”*

Mr Valent also **specializes** in the production of certain parts of furniture skeletons **and supplies them to another cooperating company in the network, which then completes the order. That is also one of his individual activities.**

### **Business ethics**

*Part of ethics is that you pay and you get paid. That which is to be paid... It is obvious and it must work like that among businesspeople. I receive one invoice a month from one company, two a month from another... I purchase from them all month; we note the goods I purchase and at the end of the month I receive the invoice. Without any cash, without money paid in advance. They are crediting me all month, because they know, that up until now I have always paid and always will pay...*

### **Communication with local politicians**

Mr Valent is a fairly well known businessman in his village, but he is also a **member of the local municipal council...** *“I communicate very well with politicians... I have twice been elected deputy mayor... like now in the municipal elections... That too is a sign of trust from them...”*

**On the other hand, the carpenters do not trust politicians too much.** *“You know, particularly the ‘more important’ politicians... I have been in contact with them from time to time... it is totally different, what he says and what he then does ...at close range, everything is completely different....”*

### **Entrepreneur's prestige and human jealousy**

It is said that people look askance at businessmen, that they are wealthy... and why they have this and that... But Mr. Valent says: *“If I did not own that which I do, then I would not have such workshops, or the technology and premises I have. That way, I would not be able to employ eight people, and I would not be able to train seven or ten apprentices... These are requirements a businessman needs to fulfill... It is a part of his business life... One needs to know that, too...”*

Brothers from the Twins company: *“I think that over here in the village we are quite respected by the people... This is a village; everyone is doing something... One has a small foil greenhouse; another has a field... And, like us, he is helping himself as much as he can... There is nothing to envy here... Next door we have some businesspeople... one of them cooks lunches, another makes metal accessories, and here is a painter with his son... We have nothing to be envious of... one of us is a plumber, another one a locksmith, another one a shopkeeper...”*

## 6. The future of the entrepreneurs and the network

### “Wait and survive” strategy

The carpenters' views of the future are diverse, but one can agree with them. Some businessmen **are rather sceptical** and they think that if we join the EU it will be a change for the worse. The competition will be a lot tougher. Entrepreneurs are worried, and fear that **the state will not help** and small businesses **will once again be left to cope by themselves...** The economic prosperity is not rising... *We already have the year 2002 and we are still on the same level or going down. In comparison with the Czechs, with Europe... Those who drop out now will not have the chance to join in again. Those who have some common sense now but don't have a lot of capital, or who are unable to get to foreign capital, they should stay where they are and wait. Wait to survive. And when they see that it is getting better, especially the laws and help from the state, then they can start... expanding the business, the workshop, taking on more people. These days, if I do not have the background of Western capital, I do not have any hope of expansion. Everyone who is expanding here is backed by capital from the West... Everyone is helping them as much as they can... They have a ten-year-long tax holiday... But why not me?*

### But there is some careful optimism

*Foreign cooperation? As long as we are living like this, and are not in the EU, reciprocal trade and cooperation are not interesting... I will not even sell a nail to the western countries. I don't have good experience. I have tried it with the Germans but it did not work. And the Hungarians are the same. They are tricky and unreliable. They have learned that from the Germans and Austrians. Everyone concentrates on the West... But we are not good enough for the “West”... Maybe it will improve when we too become the “West”... when we get in the EU...*

## 7. Conclusion

### Why the network has come to life and why it is working

1. Because it is the defense of the “weaker” and their spontaneous answer to the external unfavourable conditions, which no one is trying to solve.
2. Because a network is better than an “organization.” It is personal, trustworthy, transparent and concrete. It is based on mutuality and trust.
3. Because it is not “compulsory,” it has no officials and one does not need to pay a “membership fee.” If it ceased being useful, it would die away by itself.

## **9. Informal Function of Formal Small Business Organizations: The Cases of Small Motorcar Drivers and Fire Protection (Slovakia)**

Zdenek Stantny

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**Legend:** *...The weakness of the Slovak people lies in the fact that when an opportunity arises to earn money quickly, there always appears a group of people, who try to exploit it for themselves...*

### **1. Introduction**

The participants of this informal business network work in the area of education, inspection and training, which is linked with health and safety work regulations. Their collaboration within the informal network started as a reaction to the disintegration of formalized self-help organizations, which they had founded as an institutional self-support mechanism for their profession.

The basic cooperating group in the network is formed by four entrepreneurs who operate throughout Slovakia, and their enterprise has both a regional and a countrywide dimension.

At present, approximately 500 individuals and firms in Slovakia operate in the field of fire protection and provide training courses and inspection of fire extinguishing devices, and approximately 450 individuals and firms provide maintenance and training for small motorcars and other lifting devices, and issue certificates of qualification for those who work with them.

Firms or sole proprietors who provide this kind of training and inspection, and issue certificates of qualification, have to be accredited by the state and must have completed specified tests and possess specified licenses.

A company or an individual who acquires the accreditation of tutors, inspectors or instructors, can for as long as their accreditation is valid operate independently and carry out training and inspection, and issue licenses and certificates of competence, often without any regulation or sanctions.

However, only a small proportion of these businesses have become members of special professional organizations, which have been established in order to consolidate methods and control and coordinate the training activities in both of these areas. These professional organizations are the “Guild of Small Motorcar Drivers,” and the “Association of Entrepreneurs in Fire Protection,” and they operate as civil corporations, are accepted by respective state authorities and institutions, and have been authorized to carry out some of the activities concerned with inspections and the issuing of licenses. However, membership in these organizations is not compulsory.

An enterprise in the area of training in health and safety and fire protection, and the operation of small motorcars used in warehouses and of lifting devices are responsible, but also lucrative professions, because **the demand for these services is continuously maintained by existing legislation alone.**

To put it more simply, laws and regulations require all companies that use operating devices (transport and lifting equipment, cranes, small motor cars, and so on) to repeatedly carry out inspections of these devices and to train their operating personnel. Similarly, legislation prescribes that companies and institutions must install fire extinguishing equipment, maintain it in working order, and provide training as far as their use is concerned.

However, due to the great variety and “imperfections” of many laws, regulations and ordinances, their

understanding and interpretation is not always consistent, which makes it difficult for the authorities concerned to check the quality and method of the training provided.

**In an environment which is problematic both in terms of legislation and corruption, various problems may, and indeed do, arise, such as diverse attempts at fraud, non-observance of the regulations and ordinances, and unfair competition and corruption.**

When some of these unfair practices first appeared, the initiators of the establishment of both aforementioned interest organizations started to warn of these facts. However, they fell out with the others and engendered serious internal rifts and conflicts within the professional interest organizations themselves. The Guild of Small Motorcar Drivers fell apart and the other organization is fighting for membership and survival. Within both of them, a fight against unfair competition and the dominance of strong monopolies is taking place.

A group of entrepreneurs, who were the founders of these organizations, is striving—on the basis of mutual trust acquired through long-term cooperation—to restore the legal “status quo” and revive the activities of the “Guild of Small Motorcar Drivers” and the “Association of Entrepreneurs in Fire Protection,” and fight the various forms of unfair competition that occur there. But at the same time, as long as these conditions persist, they substitute for the work of these “crippled” organizations by helping each other through their informal network and by collaborating in the area of their own enterprise and training activities.

## **2. Observed Business Activities of the Enterprises**

### **Terms of trade**

Enterprises in the field of training, inspection and maintenance of small motorcars and fire extinguishing devices differ to a certain extent from other “ordinary” kinds of enterprises.

Three groups of factors interfere and interact within the framework of fire protection and operations equipment:

- **Technical factors** - Inspection, maintenance and repairs of fire protection and operational devices and technology
- **Institutional factors** - Laws, regulations and standards in the area of technology, operations and work safety in fire protection and operating technology
- **Human factors** - Training and education of people who come into active or passive contact with these devices

The interaction of such diverse and complicated system factors represents an arduous field of activity for the entrepreneurs. Their enterprise requires them to accept and reflect all of these factors, while at the same time **they have practically no influence over many of them, neither as firms nor as individuals.** That is why they need to find their own strategies in order to be able to succeed in this intricate field within the existing legislative and market conditions.

Therefore, the businessmen and their companies carry out variously combined training, inspection and maintenance activities, and some of them carry out all of these at the same time. Some training courses, revisions and repairs are conducted on the premises of the company itself, but a portion of them are carried out directly in the customer’s organization, in which case the entrepreneur-instructor travels to the required site anywhere in Slovakia. Thus, suitable premises are necessary for the provision of training, whereas inspections and

maintenance necessitate the availability of workshops and appropriate equipment. That means that the material prerequisites of the “craft” are rather varied, and employees of the companies spend a lot of time travelling.

Another peculiarity about these businesses is that this type of trade is regulated. **That means that companies** that provide training courses, maintenance and checkups, and issue licenses and certificates of competence, **must be accredited by the state and must possess specified qualifications and certificates**, which are issued by the Ministry of Labour and Social Affairs, or in some cases the National Inspectorate of Work Safety.

The elementary “working capital” of all these entrepreneurs is a broad spectrum of skills in the area concerned. However, the job itself also requires the workers to study continuously to follow laws, regulations and ordinances. One of the instructors says: “...*You must constantly be in contact with the legislation... We must watch the legal rules more closely than lawyers... because within our job, it is often a matter of life and death...*”

In order to be able to run this business, it is generally necessary to have appropriate professional education in the field in which training is to be provided, and of course experience. Besides, people concerned should also have a certain pedagogical qualification or experience in higher-level education.

Hence it is a demanding and responsible job, but on the other hand it is also profitable, because the customers’ **demand is continuous and created by the legislation**. Laws and various regulations namely **oblige companies** to have their personnel in certain jobs trained repeatedly, and also to have some of their equipment subjected to regular inspection and check-ups.

### 3. The need for the existence of entrepreneur interest organizations

It was clear from the beginning that the optimum functioning and provision of training and maintenance, in both fire protection and operating technology, required the existence of an appropriate **institutional and organizational background**. It was necessary to devise schemes and methods of training, to introduce systems into the license records, to create a database of instructors and entrepreneurs in the field, and so on.

**In the case of operating technology and small motorcars**, the necessary organizational basis and activities had already started to concentrate under the auspices of a large producer of small motorcars in the Czech Republic.

*“But when Czechoslovakia split in 1993, suddenly there was no one to organise the issuing of certificates for instructors, to keep them registered, to define the rules and the methods of training of small motorcar drivers, etc...” It was vital to coordinate and associate all those who work in this field...*

The main characters of this study together decided to establish a *voluntary civic corporation*, the **“Guild of Small Motorcars”**... A preparatory committee was set up, a statute was drafted, etc. and the Guild was registered with the Ministry of Interior. *“There were about 250 of us, but it was not just instructors, also importers of small cars and big producers of small cars and operating technology in Slovakia... And those have remained in the Guild up until now, because it is not only of technical but also commercial value for them, and they also get something in return...”* The Guild began publishing newsletters and the members started to communicate and cooperate with each other.

The supreme body of the Guild is the general assembly, then there is a board of directors on which each of the eight Slovak regions are represented, one guild master and his deputy. The membership is voluntary; there are no paid posts or paid employees; it is financed from membership fees, from the issue of certificates for the drivers and from sponsors’ contributions. *“The Guild does not get any money from the Ministry, the membership fee is*

*400 Slovak crowns per individual, and a member company pays a 5,000 crown membership fee...”*

**Similarly, the Federation of Entrepreneurs in Fire Protection came into being in 2000.** The objective was to unite entrepreneurs, producers and distributors, and solve other problems connected with trading in fire protection and fire extinguishing devices. *“With this Federation, it was like with the Guild. Companies that knew me asked me to help them establish it. I advised them on everything, and then they elected me chairman...”* says one of the founders, Mr. Marian.

The federation also began to participate in the process of the preparation and passing of laws and regulations; it started organising training and instruction courses, began to publish a newsletter, and so on.

At the moment, the federation has about 160 voluntary members, entrepreneurs and companies operating in the field of fire protection, but also fire extinguishing device technicians, inspectors and mechanics. The federation became a member of the interest organization of sole proprietors and small-scale entrepreneurs, the “Slovak Craft Industry Federation,” which also supplied the federation with computers. It participates in the organization of the professional preparation of the people who carry out fire extinguisher inspections, maintenance and filling. In collaboration with the Ministry of the Interior and the Inspectorate of Labour Safety, the Federation also engages in the process of the development of legislation.

#### **The legitimization of entrepreneurs’ Guilds and Associations is as follows.**

**The entrepreneurs all agree:** *“Guilds and professional federations have a point... it makes sense when businesspeople meet... It serves as a source of ideas but also of contacts with others, with those who need something that I have or can provide... But it also serves as means of self-defense, whether it is against the Ministry or the authorities in general. And it is all also a way of helping a good cause...”*

*It ought to also help all those ordinary instructors, who do their job alongside their normal occupation, because they have no time to study literature, to follow new developments, regulations and ordinances...”*

*“We want to participate in the making of laws and standards and we have managed to win the support of the authorities; they have started to accept us... it was all for a good cause, to prevent chaos...”*

*They began approaching us from the National Inspectorate of Work Safety, too, when they needed advice on some specialist subject, a regulation or similar topic, because they do not have such practical experience there... we have the experts; we publish our viewpoint and they can then pick some sensible opinions and suggestions... that is feedback... Right now they have once again accepted our proposals for the methods of training, for the syllabus...*

#### **4. Problems and conflicts**

However, shortcomings and problems soon started appearing in both organizations. These eventually led to the point where **these institutions, which should have been working and should still be working, no longer function**, and it is difficult and tedious to claim reparations.

##### **4.1 Current situation of the Guild of Small Motorcar Drivers**

One of the entrepreneurs says: *“You know, where there is money at stake, there will always be people who will try to make it work for their benefit and who will use unfair practices...”*

Although it has been one of the objectives of the Guild to establish order and legislative certainty in this field, shortly after the Guild was founded some negative matters arose.



*“In spite of the fact that the Guild was already in existence and working, it would still happen that certificates would be issued on a ‘friend for a friend’ basis, sometimes even in a pub for a couple of hundred crowns, without qualification, without records or courses... And then, if someone came to harm, it was revealed that the people concerned did not have the specified qualifications, there had been no training courses, etc.”*

That was why in 1998 the Guild applied for authorization to be able to **keep a register of all drivers, issue and register certificates, and also supervise the training centers.** The aim was, above all, to prevent similar practises, to ensure order and provide a system within the provision of schooling and training as specified....

But it did not completely work out. When the Guild acquired this authorization, some people realized they could get money in return for certificates. A group was formed which started issuing certificates that were not in accordance with the regulations and ordinances. *“But by the time the inspectorate realized what was going on, 20,000 certificates had been issued...”* says one of the people concerned.

Afterwards, this group decided to get rid of the original management personnel of the Guild who did not agree with these practices and were hinting at these shortcomings. One of the men says: *“They exploited the improper registration of the Guild, done some time ago by the state authorities, to replace the management. It was namely necessary to register again and repeat the whole process... the deed of foundation... elections to the various organs. And when this was happening and being approved, these people took advantage of it and got their own people into the management and onto the board of directors of the Guild, people who agreed with the unfair methods, inconsistent with the regulations in force, and supported them...”*

The founders of the Guild also found other faults with the new management, especially the fact that they were not fulfilling the main objectives for which the Guild had been established in the first place. For example, the use of standard printed matters had not been adopted, they did not cooperate with the National Inspectorate of Work Safety, book-keeping rules were not observed, the board of directors did not have access to the accounting documents, and so on.

After that, a part of the Guild seceded, and **at present, there are two guilds.** *“And lawsuits are in progress in order to determine which one is genuine... Whether the original, which has been lawfully registered with the Ministry of Interior and which possesses all the documents, or the other; which seceded and was left with the finances of the original Guild...”*

One of the original founders of the Guild says: *“The whole point of the Guild and the reason why it was established, they buried that... and the trust is gone... the Guild used to have a good reputation. But now I am no longer interested in it... I will not go to court with them and argue about money... These people destroyed the Guild, its purpose and objectives...”*

However, recently the National Inspectorate of Work Safety reacted to the situation and banned the Guild from issuing certificates. **At present, training may be provided and certificates may be issued only by training centers that have the accreditation of the Ministry of Labour and Social Affairs.**

**So now the original Guild of Small Motorcars, as well as the seceded Guild and the company that took hold of it are without authorization.** *“This caused all the work of the Guild to stop; everything that had been achieved so far was shattered and destroyed... Neither the Ministry nor the others want to intervene before the court has decided. But that takes very long, the solution is very difficult to foresee, and the chaos continues...”*

## 4.2 Current situation of the Association of Fire Protection Entrepreneurs

**In the field of fire protection, the main problem is posed by the monopoly position of large firms that import or produce fire extinguishing devices, related unfair competition, and their tendency to dominate the whole market.**

Two large companies operating within Slovakia represent the dominant makers of fire extinguishers, control the whole market and **abuse their market position badly**. Their monopoly emanates from the past when, under socialism, they used to import fire-extinguishing devices from the only foreign producer of that time.

Each importer or producer grants the right to carry out check-ups, maintenance and training on his products. These two companies authorize each other in this way, and do not really let any other dealers and entrepreneurs into the market.

*Furthermore, these monopolies also sell single fire extinguishers to ordinary individual customers for the wholesale price... they can afford it...*

*And then they send such an offer to customers, where we too are trying to seize the order; and they completely "spoil the prices." And if they happen not to get the job, they carry out pointless and needless inspections at the client's business, to bother them.... They earn the most by doing training courses and workshop repairs, for which they only give the authorization to each other or to whoever they like...*

*Because with fire extinguishers, you get profit from training and maintenance... But when selling, you need to lower your prices if you want to succeed... It is a mafia... they have bought up the state organizations, the large construction companies...*

Some dealers go deep below the price just to get to a particular customer. "But that is just a dirty trick. They charge the company only 10 crowns for the inspection, but they inspect it so that afterwards the extinguishers must all be repaired... And then they put so much onto the price the customer just cannot believe it.... And in the end, he pays much more..."

*"I have already written magazine articles about it and explained to the customers what they should watch out for... That the cheapest is by far not the cheapest really..."* says one of the entrepreneurs.

*"But that is not just competition, it is unfair competition and an infringement of the market rules... Our Federation has already dealt with it and decided to file an incentive with the Anti-Trust Office..."* says another one of the businessmen.

## 5. Unfair competition and related matters

### Bad legislation and unfair competition

The law only allows people and companies with accreditation to provide training. In the field of operating technology, about 100 training center possess the required accreditation; those are entrepreneurs who do it on a professional basis. But there are more than 400 instructors, who work in a different occupation and only work as instructors part-time on the basis of individual agreements... and that is where the problem is. *"There is an enormous number of people who issue certificates and stamps and no one is controlling it..."* The Guild should have kept an eye on such unfair competition and eliminated it. That is where the seeds of fraud lie, because *"he who is employed elsewhere, cannot provide training in accordance with the syllabus, and they sometimes do just one-day-courses just to earn something extra..."*

**Another problem is the conflicts of interest. Some inspectors** have set up their own fictional firms, which then got the authorization to provide training. The inspector does the check-ups and, while inspecting, he

makes recommendations, or even warns: *“If you get training in this company, then it will be OK, you will get your certificates and it will be fine.”* And then he endorses the training and the certificate through his fictional company. The governor of the National Inspectorate has already issued a ban on such training courses. But the ban is being evaded and it is still happening.

### **Discrepancies between laws and regulations**

For example, there is a lack of accordance in legislation. *“That is a huge problem. The National Inspectorate issues one regulation, the Ministry issues another one, and they contradict each other.”* For example, they published one standard and two regulations, and each of the three contained a different pictogram to mark the location of a fire extinguisher. So three official pictograms were published, each one different, when there should have only been one!

There were more discrepancies in the case of a regulation on pressure tests of containers, or on the training of crane operators. They issued an amendment to say that the validity of certificates would only be five years, and the operators had to be re-tested again after that period of time. But that only applies to the crane operators who are going to be tested from now on. Those who have already been trained have a certificate with unlimited validity; no one is going to test them again. Tell me who will respect such legislation?

### **Indolence of institutions**

Everything takes extremely long. For example, *“Regulation on professional competence for selected machinery...,”* is related to the Guild, and the training has still not been published... It should have been published in 1997, but so far it has not been, and according to the latest information from the National Labor Inspectorate, it will be published in 2003-04.

*“It bothers us; we try to make the representatives of the Technical Inspection and the National Labour Inspectorate aware of it, but they are reacting very slowly; no one is feeling under pressure... To get an amendment of a regulation here can take as long as five years. There is no cooperation between the Ministry and the Inspectorate... **One could almost say that various institutions are fighting each other about who is better for small and medium-sized businesses, who is more important... And it is not just ‘a small fight;’ it is a great struggle. It is about money, about position, and about power...**”*

### **Corruption**

*There is mafia, who are cooperating... The most corrupted are state organizations and construction companies... In the selection process, the commissions favour each other and bribe those who make the decisions. I personally have so far never been selected... They always justified it by saying there had been a cheaper offer. But then it turned out that in fact it was more expensive... Our experience shows that in the selection procedure, the winner is determined in advance and often they prefer a dealer to an importer...*

*Neither will you get to large companies, even if your machinery is more efficient... It appeared that those who make the decisions have a “merger;” which in Slovak means **an agreement with one of these leading monopoly companies... But that is corruption and a conflict of interest...***

### **System faults and disorder**

On the other side, all companies have less and less money. Costs have risen and they have to economize. And primarily **they save money on training, inspections, professional testing, safety issues...**

They get away with it until there is some serious or fatal injury. It is because they know that the

Inspectorate does not have enough time for inspections. The inspectors say that they no longer have the time or the money they used to have to be able to carry out normal inspections in the field of work safety. They claim not to have enough funds for the transport even.. And then, even if someone comes to harm and is lucky that he survived, the company promises to give him money and does not file it as a job-related injury, and that's that...

**I have done a check-up** at one office in which the fire main had not been inspected properly for 15 years, but the certificates were always OK.

## 6. Collaborating companies and their characteristics

**MULTI PART, Ltd. is owned by Mr. Marian.**<sup>48</sup> He is the main character in both business organizations, as well as in the new network. He lives in a district town in Western Slovakia, is married, 55 years old, and has two adult children. He is a very versatile, active and dynamic businessman, who joins in various organizational structures. He communicates with diverse entrepreneurs' professional institutions, as well as public administration, and he has become an entrepreneur of nationwide significance. He works very actively on the board of directors of The Slovak Association of Small Entrepreneurs and also in the networks of the Slovak Small Business Chamber, Slovak Craft Industry Federation, the Guild of Small Motorcar Drivers and the Federation of Fire Protection Entrepreneurs. Originally he worked in various technical professions in large state companies. His last post was that of a company mechanization worker, where he came into contact with the issue of inspections and maintenance of transport and lifting devices, as well as with fire protection and work safety, just like the other businessmen.

He started to do business with only his wife in 1992; he now employs almost the entire family in the firm and nine internal employees, who provide the training.

The main areas of his business are training courses. His firm possesses 26 accreditations for training in areas where a certificate of competence is required, particularly in the field of work safety and fire protection, the operation of lifting devices, and small motorcars. He also deals with the maintenance, installation and rental of construction machinery, scaffolding, fastener stud guns, agricultural machinery, logging wheel tractors and fire extinguishers.

**CAR & UP, Ltd. is owned by Mr. Jaro,** whose business focuses on the training, inspections and maintenance of small motorcars and lifting devices. He has three employees; one of his sons works in the business and is also its co-owner.

He was originally employed in a large state-owned construction company, in which he worked as a leading technician of a department that carried out inspections of cranes, construction machinery and pressure, electrical and gas machines. As the head of a department and an inspection technician, he had all the necessary authorizations to provide inspections, training and maintenance. When this state-owned company was to be privatized, he made an agreement with the director that he would go independent and continue to do his job, with the only difference being that he would start invoicing the company for it. That was why in 1989 he got his own business license, and in 2000, together with his son, expanded to establish a "Ltd." company. Initially, he functioned in a rented basement in the block of flats he lived in, and later he bought some land and started building. After five years, he had built a new house at the outskirts of the capital, which has training rooms, workshops and garages in the basement, on the ground floor, and in flats upstairs.

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<sup>48</sup> The names of companies and people have been deliberately changed.

**WORK TRAIN, Inc. and its owner Mr. Lubo** are situated in a district town in the east of Slovakia. Mr. Lubo works independently, without other employees; he hires an accountant to help him with economical matters. He has a daughter and a son; his son works abroad and his daughter is finishing studies in Economics.

Mr. Lubo is a qualified electrician and has externally completed a secondary electro-technical school. He previously worked in the capital in large state companies, in which he dealt with the operation and maintenance of small motorcars. When he got married, he went to work in a large chemical company in eastern Slovakia, where he also worked in the field of work safety and protection, including the training of drivers. Later, he started to specialize more in schooling, and after the split of Czechoslovakia, he started up a training center within the company for instructors, who provided further schooling within Slovakia. He left the company in 1999, and made a deal that he would continue to do the same job, but as a supplier, as an independent company. Throughout his professional career, he has written and published learning materials and books in the field of safety regulations and operating technology.

**FIRE PROT, Ltd. is owned by Mr. Joseph with his wife Olga.** They have a family firm where they work together with their two sons. They have both studied at a secondary engineering school and keep the continuity of their original professional background. Mrs Olga used to work in a large state company in which she designed fire extinguishing devices, and later became a fire technician. Mr. Joseph also worked for a state-owned company, in which his superior was a representative of a Prague branch of a firm dealing with fire extinguishers that needed an inspector... *So we made a deal and founded a company... We got started in our then flat, in one room, we had nothing really... people laughed at us saying **businessmen. And they are doing business with a rusted cheapest Skoda car...***

Their present company imports mostly high quality fire extinguishers from abroad. *The products of this firm are expensive, but also of very high quality... The best foreign makes of trucks are equipped with these extinguishers... and the express InterCity trains too...* The company is an importer and dealer for the whole of Slovakia, and when necessary they also check and repair the extinguishers. But they also distribute other makes of fire extinguishers and carry out inspections of extinguishing devices in Bratislava. **“We are successful because we provide quality...”** they say. *“Throughout the 11 years since our company was established, our customers have been satisfied... With our attitude, service, the quality of work and the quality of the fire extinguishers we sell...”*

## 7. Values, Experience and Strategies

**A small firm must stand on more “feet.”** It is necessary, because one day one thing works well and the next day it is something else that works... *“The most important activities are inspections, professional testing and examination of all types of cranes, maintenance and rental of scaffolding, repairs of small motorcars... I could not live on training courses. And I choose that which is more effective; **that which I do not want or don’t have the time for, I pass on to my colleagues who we collaborate with...**”*

### Family in business - strengths and weaknesses

**Advantages** *“My wife is my accountant; my son is also in the company; he works as a mechanic, and my*

*daughter as an assistant accountant. I pay them just like I do the others, but this money 'stays at home'...*

*"Because what sometimes happens is, you employ an accountant, they find out too much, see an invoice on 100,000 crowns and start blackmailing you for a higher salary... And if they don't get it, there is the risk that he may inform either the authorities, or the racketeers, about how well off and wealthy you are..." **Another thing is that the racketeers only succeed when they find a swindler, because he is scared...** but that's not the case with us; all our accounts are OK... But certainly, it is easier to explain to your son or daughter how much of the invoice is overhead, how much is material... And they see that they are working for themselves, too...*

### **Problems**

*I do not think it best to employ the family in one's own business... My wife works elsewhere because if the company collapsed, we would both stand there without a job and without money... That is a great disadvantage of having a family business...*

### **The past**

All members of the network were previously middle management employees in large state-owned companies and they were also active in social and political posts, which helped them to acquire not only sound professional experience, but also skills in the field of workforce management. They used to be employed in exactly the same profession in which they now do business independently. They know all the details of their job from their personal experience; most of them started working "from scratch."

When "capitalism" first started, they were "in the right place at the right time." Their move from the position of an "employee" to that of an "independent entrepreneur" was steady and without conflicts, with the "blessing" of their former bankrupt employer. Their current independent businesses satisfy them, but require much more work effort, much more responsibility and "uncertainty" than their previous jobs in state companies. They know what they have gained, but they also know what they have lost.

Mr. Jaro from the CAR & UP, Ltd. **company** says: ***I may be richer now, but at what price...** You need to look behind the business success to see the price that had been paid... Socialism was definitely better for those wanting to lead a more peaceful life, plus there were all the social benefits... One did not need to think so much... As a supervisor, my salary was good and I came home from work at four and had to work no longer... I would take the kids out for a walk and that was it... I also had a chance to earn something extra... I used to give lectures, legally alongside my job, and I was earning rather good money...*

*Nowadays when you do business you cannot say to yourself, OK, the working day is over at four o'clock... the only people who can say that are businessmen who already have large savings and who have people to do the work for them...*

### **How they acquired professional and social skills**

Mr. Marian says: *"For me what was most useful in the past was traveling and dealing with people... One company took me on provided that I would be the chairman of the Socialist Youth Federation. I accepted. That was where I learned to communicate with people and also to negotiate with superiors. I was initially terribly nervous, but I learned from it..."*

Mr. Jaro says: *"Everything I train people in I have done myself too...I was an electrician; I drove small motorcars... I was an operator, too... and that helps me until now... I know from experience what I speak about... It is as if you were giving lectures on how to make pancakes, but you had never made them yourself... But I also gained a lot through sport... for instance, being ambitious..."*

Mrs. Olga says: *“I learned the most in the old firm... It was mostly about how to manage people, coordinate work, and minimize problems and conflicts...”*

### **Immaturity of market conditions**

**Over here, we have swapped socialism for capitalism too quickly...** we must still learn a lot... **Socialist thinking** persists that means corruption and “acquaintances,” **combined with capitalism**, “to get rich as fast as possible” it is just money and money.... But that will not get sorted out by itself... rigorous and consistent legislation is the basis...

### **Friends, wealth and human jealousy**

*“Under socialism, my position in my job was rather high,” says Mr. Jaro. “When I started to do business, I fell right down and started all over again... only then, gradually did I slowly move back up... People who know me do not envy me, and the others see that I am working all the time... I do training courses, also in our old rooms they could see that I stayed there until the night... I wasn’t one of those who got rich fast, so they are not jealous... But I have been lucky... I managed to buy a flat and some workshops cheaply and legally, and then I sold them four years later for a very good price... it was good for a start...”*

### **Business ethics**

*“A good businessman has the respectability and moral standing, but he needs to create them himself, through earnest work and payment of bills... Because there are many entrepreneurs whom we must take to court. Not paying is their habit; it is not that they are unable to, but they are living off the money of others. The basis of good cooperation is to maintain respectability. I consider punctuality fundamental and pay all my liabilities and debts. Then I am able to collaborate; the company can bill me a million. Not many would do that these days. But it is the strongest businessmen who can do that, and only then will the rest gradually join them. And the respectability and moral standing will come back again, but only after at least one generation has passed...” says Mr. Marian.*

### **Trust**

*Whether we trust people? With fire extinguishers, trust does not work very well at the moment... One has to categorize people. For example, we trust one acquaintance of ours; she does the bookkeeping and taxes for us... she advised us right at the beginning how to save money. She understands her job and she is respectable... I don’t trust anyone 100 percent, I sometimes test a person six times before I can say that I trust them. That is my experience. We have been let down many times... The trust is also determined by the fact that we do everything legally and nothing “under-the-counter.” In our case, trust is based on the quality of work.*

## **8. New network as a solution to the problems**

*“Our Guild, it was not just for us, for the defence of our interests... the Guild and we were more than that...” say the original “kindred spirits,” who stood by the birth of the Guild of Small Motorcars.*

**But this core group is still working;** we meet and collaborate... but there is something that made sense, that could have worked, but it vanished... Enthusiasm disappeared, but we are still carrying out some activities... documents, references, everything that needs to be put in writing...

### **Informal “small” network**

When you think about it, we who collaborate do not need any association or contracts, but when we come to an arrangement, then we are going to do it as arranged... because we know and trust each other... And this way, we help ourselves even if we have no organization.

### **Network as cooperation and communication**

*The others, whom we would “force” into some kind of an organization or association, they would only disrupt our system...*

Mr. Marian says: *“We have training centers that we know; we know the people who provide the training there and have friendly relations with them. When I get someone enrolled for a machine operator course and he is from Dunajská Streda, I will send him to Dvory nad Zitavou, where it is nearest for him... I have a friend there who can provide the training for him. I will not tout him to do it with my company, and in return I can help that friend of mine in some other way, offer the training he does not provide... We have agreed not to take each other’s clients. People from Bratislava, let them complete their training in Bratislava... I have enough to do in my region. This agreement of cooperation works both ways; I help them and they help me.”*

*Throughout Slovakia, there are about 10 to 15 training providers who collaborate in this way. The rest are independent and sometimes work in a very chaotic and disorganised manner:*

A representative of CAR&UP, Ltd. says: *“Activities similar to mine are carried out by three other companies in Slovakia.... And we ‘lend’ each other the jobs... I will not go as far as Kosice; the inspection will be carried out by this company I cooperate with... I let them do the job and the customer is satisfied... A good businessman, if he does not have the goods you need, will advise you on where you can get it... But that has also been the original idea why the Guild should work...”*

*“In the field of small cars, it is the same; someone asks: ‘...Do you happen to know who repairs small motorcars?...’ and as we know one another and know exactly who is where, I will tell him where to go...”*

### **Symbiosis of two structures in the field of fire protection**

*In the Federation of Fire Protection Entrepreneurs, the informal collaboration works on the basis of the existing formalized structures.*

*Within the federation, we know representatives from various regions; these are all entrepreneurs in this field, that’s where they met and they also continue to help one another... They need no contracts; it is a matter of agreement... They have their own firms; each one sells, maintains, and inspects fire extinguishers... And when someone rings me from Nitra and says he needs something, I tell him there is Igor; give him the number and tell him to go to Igor; he will sort you out...*

*And then again when I need something, I call the same people... I will call him to find out whether he has that which I need, and I go to his firm and not elsewhere... First of all, I approach them; only if they don’t have it do I go somewhere else...*

**“Even though all of us still have our own customers we help one another this way...”** says Mr. Marian.

It works for us, too, say the couple from the FIRE PROT, Ltd. company, *“When we became importers together with a company in northern and eastern Slovakia, we divided our market and the training courses, in order to be able to compete and not to surrender to the pressures of that monopoly...”*

### **Trust remained**

*“We know each other from the Guild; we are the old kindred spirits who would like to restore ‘the original legal*



*status.' Our current collaboration is much about trust. My Dad has taught me that he was a Bulgarian; therefore, once you damage your image it will be forever. Every time you help out somewhere, when you are on good terms with people, you will get something in return one day. And then the integrity and the trust will come back to you...' says Mr. Marian.*

### **Who the main player is and why**

*The manager of this whole network, of this whole informal collaborating group, is Mr Marian. The legitimacy of his leading position is based on his **professional and personal authority** on one side, and on the other, his ability to process and use **“social skills” from the past.***

### **Information, professional education and personal dedication**

*“This business requires a wide range of information. Training centers like the one I have must invest huge amounts of money into information technology. I have to have all the regulations, standards, I must be knowledgeable about the latest developments and keep well informed of everything... Every time a conference takes place somewhere, I have to go there, in order to have first-hand information.*

### **Communication with the authorities and politicians, social experience**

*My advantage is that I often meet with the inspectors and the authorities overall... It is a consequence of my functions. I am the guild master and chairman of our organizations—I am in the Slovak Craft Industry Federation, in the Small Business Chamber and also in the Secretariat of The Slovak Association of Small Entrepreneurs.*

*Those are all sources of information... We find out about all ordinances, which are being prepared, because as a representative of all these organizations, I have the right to comment on them... I communicate with the associations; we discuss things in commissions, at the Office for Standardisation and Metrology. Our people are on the individual commissions, which approve, for example, standards for small motorcars, regulations and laws in fire protection, on the commission at the Ministry. We have our representatives in all these bodies...*

### **Future of businesses providing trading**

#### **The optimists**

**The prospects for training and schooling in the EU are promising.** *“Already now, when a company wants to acquire certification for cooperation with, or export to, the EU, it needs to have a system and structure of training worked out. Without that, it will not receive the certificate. That means that people need to be regularly trained... The **integration into the EU** will also mean **workforce migration, and hence the importance of qualification and education will rise. They must be identical in order for the people to be able to assert themselves in the European labour market...**” says Mr. Lubo.*

**But one needs to start preparing “... I am now attending a course. I am learning how to make a project.** *The money for these projects is to come from the EU. Here, one needs to be able to draft projects and teach the small entrepreneurs how to get to sound schemes and hence to the funding for the support of small-scale businesses. It is a great thing, because there I learn how to make an analysis of the firm and see what is bad and what is not, where and what mistakes are being made... And that is crucial...” says Mr. Marian.*

## The sceptics

*“I think that for the most part it will be the wealthy who will do well in the EU. But at the beginning, for the first couple of years, we will all be hard pushed... our economy is very weak; it will depend on how much time it takes us to recover..*

*It was the case elsewhere, too. Take Austria... they were much further than we are now... and are not much better off now... the Germans have also been unlucky with the accession... they had also gone down... **Our companies, but particularly our people—the way they are now—will be worse off... But then again, they will finally have to wake up and pull themselves together; you don’t get anything anywhere for free....***

## 9. Conclusion

Enterprises in the field of training provision and the issuing of certificates for the handling of operating technology and fire extinguishers function according to rules set by laws and regulations. State authorities have delegated to these entrepreneurs a proportion of their authority to issue certificates of competence in the area of small motorcars and the operation of other operating devices, as well as in the field of training and testing and maintenance of fire extinguishing equipment.

However, **in light of the importance of these activities**, it became clear that it is necessary to create an appropriate **institutional and organizational background** that would make it possible to coordinate but also control the activities of these businessmen.

The aim was to design uniform syllabi and methods for the training courses, to introduce organization into the register of certificates, and to produce lists and a database of instructors and entrepreneurs **in the field of operating technology, as well as fire extinguishers**. Such organizations, in the form of **voluntary professional civic corporations**, were eventually founded and started working. It was the Guild of Small Motorcars, which had been founded in 1994, and the Association of Fire Protection Entrepreneurs that had been founded in 2000.

In 1998, the Guild acquired from the appropriate state organs the authorization **to keep records of all drivers, to issue and register certificates, and also to supervise the training centers**. The goal was above all to ensure order and organization within the provision of schooling and training in accordance with the regulations, and to prevent the potential abuse of the delegated powers.

Similarly, in cooperation with the Ministry of the Interior and the departments of fire protection of municipal authorities, the Association of Fire Protection Entrepreneurs was developing its activities.

However, as a result of substantial imperfections of the relevant legislation, as well as wide-spread corruption, in both areas there have been appearing, and still occur, attempts at fraud, infringement of regulations and ordinances, and unfair competition.

**When some members of the aforementioned organizations started to hint at these facts, it caused serious internal rifts and conflicts. Within both organizations, a fight against unfair competition and a struggle for survival are taking place. The Guild of Small Motorcars disintegrated, and the Association of Fire Protection Entrepreneurs is fighting for membership and against the dominance of strong monopolies.**

**A group of entrepreneurs who had founded these organizations** has been—on the basis of mutual trust acquired through long-term cooperation—striving to restore **their original legal “status quo,” as well as their original objectives**.

**But at the same time**, as long as these conditions persist, **they substitute for the work of these**

**“crippled” organizations by helping each other through their informal network, and by collaborating in the area of their own enterprises and training activities.**

As for the **Guild of Small Motorcars**, its formalized structures have broken apart and they now “operate” in parallel, although they no longer actually fulfil their original purpose. **Informal connections and the network have become “the last resort,”** instead of an integral part of the operation of these businesses. There are also signs of significant **disillusion and resignation.**

**As far as fire protection is concerned,** the main problem here is the monopoly position of large companies. Within its framework, **there is a working symbiosis of an existing, albeit formal structure, and an informal structure. Thus the informal network** uses the existing formalized structures and connections to promote collaboration, **hence serving as a mobilizing element** for the revival of the operation, and the aims of the original formalized interest organization.

## 10. *The Trust-based Regulations of Economic Behaviors among Local Construction Enterprisers in Pest County (Hungary)*

Peter Csizmadia  
Csaba Mako

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### 1. Introduction

The present paper aims to re-investigate the results of a study carried out in a village near Budapest in 1992. In the first phase of the research, we presented an economic organization that could be characterized as a loose network system based on the cooperation of the various firms working in the community. In many ways, the phenomenon corresponded to the cooperation model, which is usually referred to in the literature as an *industrial district*.

The study concentrated on a village of 2,000 inhabitants in Pest County, where there were more than 20 carpenters working, despite the fact that there were not (and still are not) any factories that could employ workers of that number. During the time of the first study, the carpenters were participating in a large hotel-building project. The size of the task was such that it could not be carried out without external help. Interestingly, the employer assigned the work not to a large organization, but to a loose network built up through the cooperation of entrepreneurs (Kuczi & Mako, 1999).

The participants formed three functionally well-distinguishable groups: *outworking enterprises, local enterprises, and external enterprises*.

Achieving an independent entrepreneur status involved a long learning experience—a knowledge-accumulation process in the case of all three kinds of enterprises. The successful entrepreneurs possessed the following types of knowledge to a varying degree: *professional knowledge, commercial attitude, organizational ability, and a gift for politics*. Gaining entrepreneurship knowledge is an extremely time-consuming task. It requires numerous skills and gifts that an entrepreneur can only achieve through the cooperation of others. In the 1980's, one of the most typical ways of obtaining professional as well as organization-management knowledge in Hungary was to participate in so-called “second economies” (cf. Makó & Simonyi, 1992; Neumann, 1987; Stark, 1985, 1986).

The primary aim of the outworkers was to widen their professional technical-related knowledge, as opposed to knowledge concerning the organizational and administrative management of an enterprise. On the other hand, local and nation-wide entrepreneurs did not aim to obtain well-founded professional knowledge. For them, the development of organization- and management-related knowledge, the establishment and operation of the channels of sale, and the ability to influence the larger social environment were at least as important.

None of the enterprises or the entrepreneurs operating in the village could pride themselves on possessing a total combination of the types of knowledge presented above, just as the physical infrastructure of the ventures shaped their form in a different way. This also means that the entrepreneurs by themselves could not have been able to satisfy large-scale orders. The economical success of the individual enterprises thus depended upon their ability to cooperate with each other. Numerous social conditions had to be met to enable the creation of a successful and effective model, one that was dependent on cooperation. At its start, the

enterprise network integrated many already available structural elements, which were brought together by taking advantage of long-standing existing relationships.

Readily available relationships are thus the social regulators of economic behavior. Among these, one of the most important is the system of *social relations* operating in the community, which has a structure similar to that of family ties. It is fundamentally dominated by interdependence: individual transactions are not symmetrical, i.e., it is not necessary to respond with an immediate counter-favor. These types of relationship patterns have been made good use of by entrepreneurs in their relationship with each other (e.g., they lent material to each other). In cases like these, the long-term economic calculation based on the mutual allowance of the interests of the parties takes precedence over a short-term competitive attitude.

Cooperative relations were active in practice, too, as the study showed through the cooperation model of the wood industry entrepreneurs. It was a national entrepreneur who united the wood industry entrepreneurs of the village by involving them in several projects. The national entrepreneur made a contract with the local and outworking entrepreneurs, while the distribution of the work itself was organized by the entrepreneurs. The national entrepreneur provided the floating capital and raw material for the outworkers in advance. Additionally, it also provided administrative and organizational support for the small entrepreneurs. Those involved in the project only signed an official contract with the national entrepreneur; their relationships with each other were only regulated by verbal agreements. Despite the lack of a formal work organization, their activity was successful and efficient. This was due to their advanced-level trust culture, which regulated the entrepreneurs' behavior in their business transactions, and whose resources were rooted in the non-economic relations of the village.

A study carried out at the beginning of the 1990's (cf. Kuczi-Mako, 1993) enumerated the social factors (values and institutions) that institutionalized the cooperation of the entrepreneurs. The cooperation that occurred between the parties of the enterprises was embedded in the system of economical and non-economical relations. The communication of the individual participants of the enterprise network is defined by three fundamental values:

*Professional values.* A basic condition for anyone to be able to participate in the project was professional competence; at the same time, professional values also helped integration by making communication between the parties possible. Professional values also emphasized the importance of stability of cooperation and restricted, or rather regulated, the development of an exaggerated inner rivalry.

*Trust.* The most important source of trust in the relations of the entrepreneurs was the family and friendship-based relations that characterized the village. Family and friendship relationships formed the basis for cooperation, which was most evident in the mutual tolerance of the parties' interests. In addition to their professional values, the parties could also count on each other's "moral competence;" that is, high level trust relations were created.<sup>49</sup> The advantage of trust relations was that the parties could share both their profits and losses; besides, it made the behavior of those involved in the transactions predictable.

The third integration value was *ethnicity*, which also involves the other two values. The great majority of the villagers are of German ethnicity. The prime significance of ethnic affiliation can be accounted for by negative

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<sup>49</sup> The source of trust relations, besides professional expertise, is what is often referred to as "moral competence," which is a sense of responsibility toward one's community, and mutual tolerance for each other's values, beliefs and interests.

historical factors. The villagers had experienced numerous ordeals, which made the community closed, but, at the same time, created a sense of affinity.

**2. The current situation<sup>50</sup>**

Next, we will review what has taken place in the ten years following the first study, primarily seeking an answer to the question whether the economic model based on the cooperation of entrepreneurs has been able to survive.

There are currently 2,100 inhabitants in the village; out of these 1,300 are adults. We tried to collect the most important economic and employment data for our research. During the research, there were 30 registered unemployed persons, while the number of the Gypsy population was 70. There were 68 individual and joint enterprises operating in the community. Out of these, 11 were individual entrepreneurs. There were also 30 partnership companies and 27 limited liability companies. The local individual and joint ventures employed 300 individuals. The income of the local government from business tax amounted to 38 million Ft. The greatest amount of tax was still paid by the mechanical appliances factory, with an annual 20–20 million Ft. It is also the factory that employs the most people, not only in the community, but also in the region; there are 600 individuals employed by them (out of these, 70–80 come from I.).

In our study, we attempted to present the extent to which the economic and social relations of the small firm network in this case have changed in the last ten years. To this end—since the number of the participants was relatively low—we applied qualitative data gathering techniques. During sampling, we did not follow the logic of statistical representation. Our primary aim was to interview those important participants who, based on their position in the community and their experience and skills, had the ability to have a good grasp on, and to interpret and/or influence, the happenings surrounding the small firm network. We have carried out structured in-depth interviews with the participants. Our starting point for the analysis was the study on the collective regulations of small firm attitudes made by Tibor Kuczsi and Csaba Mako in 1992; that is what we complemented with the experience of the study we had done on the same type of entrepreneurship sample in the autumn of 2002.

The interviews took place in I and Budapest, altogether on 10 occasions. We queried ten former participants, and we met them all several times. Their support played an important role in the effectiveness of our work; we thank them all.

The table below summarizes the interviewees:

<b>Interviewee</b>	<b>Age, gender</b>	<b>Position</b>
K.I.	51, male	Mayor
M.M.	54	Local entrepreneur
H.L.	45	Local entrepreneur
T.L.	64	National entrepreneur

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<sup>50</sup> The source of the data for this section is the Mayor’s Office of the Local Government of I.

## 2.1 Entrepreneur careers – the stratification of entrepreneurs

### 2.1.1 Outworking entrepreneurs

According to the 1992 survey, there were three types of entrepreneurs among the small and middle-size enterprises: *outworkers*, *local entrepreneurs*, and *external* or *national entrepreneurs*. The first group was characterized by producing appliances mainly, and they were for the most part dependent on some other larger business grouping. They took on only subsets of a whole project. They had loose relationships with each other, the main purpose of which was their *professional content*. They usually worked by themselves, but this chiefly meant professional independence rather than economic autonomy; that is, they were motivated by the fact that they could work at home (Kuczi & Mako, 1992).

In the past ten years, the picture just described has slightly altered. The ex-outworkers have gained larger autonomy. They now have basic knowledge concerning entrepreneurship, their ventures have become independent in legal terms, too, and they have also gained experience in the business market. As one of them said, “we have become braver in the past years; we are no longer afraid of the future” (a 54-year-old local entrepreneur).

They still want to work alone, or to employ one or two persons at most. However, by giving up their outworker status, they have created their own market, which also involves areas outside their village. True, they were partially forced to do so since the number of projects for which the skill and capacity of all of them was needed was really very few.

Due to changed market conditions, they carried out not only partial tasks, but complete ones, satisfying the needs of the inhabitants. As opposed to “formal flexibility,” some of them have specialized in some fields; some plan and produce doors and windows, others stairs or furniture. The term “outworkers” could be applied to them only with restrictions; they can be referred to as micro entrepreneurs.

Their attitude to work has not changed: professionalism and skill are emphasized; the majority of them have achieved what they had always longed for: they are accepted as skilled craftsmen in the area. They do not wish to enlarge their work activity; their ambition is to gain security. The framework for their activity is still the household; in many cases, tasks related to the venture are carried out by one of their family members, mainly the wife. We can generally say that they have been able to successfully apply the experience they gained working on bigger projects in the changed market circumstances, and also, that the way they use their family resources is more effective than previously.

### 2.1.2 Local entrepreneurs

The local businesses constitute the other group of entrepreneurs. They—unlike the outworkers—have been aiming to achieve formal autonomy and economic independence right from the beginning. Their actions have been regulated by the logics of the market right from the start; they offered their own products and services.

Their position has stabilized and strengthened in the past few years. Their income and companies’ wealth have enormously increased. They have been able to get accustomed to the changing demands of the market, which has become the result of the common effect of various factors.

Generally, they have been successful at integrating the professional and business-related competence they had gained during large projects both before the change of regime and later. Business-related competence involves new experience one can gain operating a venture, managing and selling. The fact that one of them had

successfully applied for resources offered by the Széchenyi Plan<sup>51</sup> in order to enlarge his machine pool is indicative of the fruitfulness of their newfound experience and flexibility. Usually, they think in terms of long-term, strategic projects, which also characterizes the development plans for the physical aspects of their companies (such as machine pools). This is illustrated by the following quote: “It is not a problem if we do not operate the machine for six months, but when it is needed for a particular task, then it must be available. We are now also considering the EU: once inside of it, we won’t be able to stay alive with the old work traditions; we must invest in machines” (a 45-year-old entrepreneur).

They make good use of their system of relationships preserved from previous years; most of them have expanded theirs to outside their own villages, as well. Their link to the national entrepreneurs has loosened up; they have gained greater professional and economic independence. Nevertheless, family ties still play an important role in managing their businesses. Employing their family members is a noteworthy trust capital, as it were, which is a basic component of stability.

They follow basically two types of employment strategies, both based on the duality of core vs. periphery: they either employ family members exclusively, or employ temporary workers, too, but in this case, it is still the relatives they trust that occupy the leading positions. Which strategy they opt for mainly depends on the character of the activity, and the risk-taking inclination of the entrepreneur in question.

The scope of their activity is not only professional but also social: they listen to each other, and if it is needed, they give help to each other. Besides their willingness for cooperation, they are also competitive and have effective organizational and management skills. However, their competence and knowledge related to managing a business venture has not improved *qualitatively* in the past years: generally, they lack the political competence that could recognize and utilize wider social interests and systems of relationships of business enterprises. “In order to obtain really big projects, like a school or a gym, which we did previously, we should establish links to FIDESZ or MSZP [political parties], but I have always refused this” (a 45-year-old local entrepreneur).

### **2.1.3 National entrepreneurs**

It is the external, national entrepreneurs that constitute the third set of entrepreneurs. Their professional, managing-organizing and political skills help them find their way and enforce the interests of the ventures. Their particular national entrepreneur has been outstanding: he integrated the local businesses into a large construction project and operated the network they created.

That national entrepreneur has retired; these days, his primary tasks involve planning and counseling. Owing to his retirement, there are no longer projects that planned to include the whole of the entrepreneur network. Yet, he has not lost touch with his home village; currently, he is mostly engaged in preserving the institutional and tradition system, which defines the social field in which the entrepreneurs operate, and which makes it possible for them to effectively utilize the non-business-related resources in their ventures.

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<sup>51</sup> The Széchenyi Plan was a 1998-2002 innovative government economic development program whose primary aim was to strengthen the position of small and middle entrepreneurs. During the program, launched in 2000, there were 6,532 small ventures receiving altogether 71 billion Ft. The allocated amount of the Plan for 2003 is 20 billion Ft. (Source: Ministry of Economy and Transport.)



### 3. Knowledge and skills

An important conclusion of the first study was that the business skills required to operate a successful venture did not come into being by themselves; it was a rather long and time-consuming process. Numerous previous work experiences as well as various non-business-related cooperation and communication patterns, which the entrepreneurs face in their wider social environment, play a role in gaining the necessary knowledge and skills in the process of becoming an entrepreneur. The function of the knowledge they gained is to strengthen their adaptability to the changing economical and social conditions, and so, it is far from being static. It is also necessary to continually refresh one's skills and knowledge in order to operate a successful business. In what follows, we are going to summarize how much the skills and knowledge of the entrepreneurs have changed in the years since the first research.

Before transforming into independent entrepreneurs, outworkers had gained the professional-technical skills necessary for solving tasks during working in the so-called second businesses; this was a lengthy procedure. The most important aim for them was to master professional skills, as opposed to gaining business-management competence.

This has slightly changed during the strengthening process of becoming autonomous entrepreneurs. Outworkers have achieved greater independence without increasing their capacity, though. Alongside their autonomy, they have established business organizations—if these only employ one or two persons at most—and have learned the economic, organizational and administrative skills indispensable for their operation. It is often true, though, that this knowledge is distributed among the members of their families. A typical scenario is when it is the wife who has acquired the necessary accounting skills, and she does the administrative tasks of several ventures, all of which are related to the family in some way. The ways managing and administrative skills are gained and put into use are also indicative of the importance of the collective dimensions of skills, besides their individual forms. Through aggregated resources (e.g., newly gained knowledge), skills used collectively further strengthen and stabilize the social context of economic behavior.

The “skills patterns” of local entrepreneurs and the way they gain them significantly differ from those of outworkers. Their primary aim is not to acquire and continually utilize professional skills, but to learn the necessary knowledge for operating a business venture. Consequently, the skills that have developed and improved are related to work organization, management, establishing and operating sales channels, and setting up and preserving markets. According to our experience, although they are capable of refreshing the knowledge they have gained and adapting it to often-changing relational requirements, the pattern of their skills has not changed qualitatively. True, they are aiming to influence the processes of the social environment that are directly linked to their ventures; however, they have not found ways to gain political skills. This means playing an active role in doing common tasks, as well as influencing the life of the community using both formal and informal channels. Many of them are or have been a member of the local or minority government. In addition to this, they influence village life through several informal channels, like organizing sport events. How much each of them participates in village affairs is dependent on personality, and differs from individual to individual.

As we have remarked earlier, they have not been successful at influencing the wider political environment, nor have they been able to realize and synchronize wider-range interests of the social-political field. Typically, they reject any links to high politics. As a consequence, they must accept that without help coming from such sources, they can only participate in larger projects as subcontractors. The fact that they are unable to integrate oftentimes conflicting interests affects the institutionalization of the social and economic

mechanisms regulating the cooperation of the community and its enterprises.

It was the national entrepreneur who had the most advanced enterprise skills. For him, it was natural to be able to integrate high-level professional, organizational-managing, market-related, and political skills and experiences. He gained this knowledge during a long professional-managerial career. Recently, he retired from intense business activity. Despite this, he actively utilizes almost every element of his skills; he acts as a professional consultant, and at the same time, he makes use of his organization and political knowledge in tasks primarily aimed at developing the local community. In spite of the fact that he no longer lives in the village, he plays an active role in preparing the construction plans of the community and in other tasks. He still keeps up business relations with the ventures he had united under a network before, and with the support of his relations, he helps them win projects, if they need it.

#### **4. The development of relations between the entrepreneurs**

An important aspect of the first study was to uncover the complicated system of relations that affects the quality of the relationships of the entrepreneurs. The reason why a scrutiny of the relationship of the entrepreneurs is important, is because we tried to prove that business attitudes that follow individual aims and that are competitive do not play an absolute role in the market conditions. The case of Iklad showed that there existed successful and rational economical attitude models built upon individual target following and cooperation.

The relationship between the former outworkers has always been cooperative. This was mainly the result of their unique situation; they rarely possessed skills or resources exclusively. This also means that they, alone, would not have been able to live up to the professional expectations that larger projects required. What they gained from cooperation was that they were able to integrate their capacity into operating as a network.

In the last few years, the improvement of external economic conditions and the enrichment of the knowledge and skills of the entrepreneurs resulted in the strengthening of their business status, but, as a consequence, it also resulted in the loosening of their cooperation. Despite this, mutual support as a norm defining economic and social attitudes was still in force. The reasons for this are related to culture and history—the traditions of the village. “It has always been like this; we have always helped each other in times of need” (a 54-year-old local entrepreneur). The norm system requiring one another’s mutual support is not without a function, though: it is based on the principle of reciprocity; that is, that the individual transactions are not symmetrical: the help given need not be given back immediately. Mutuality stays in force for a long time and can be “converted” into another type of kindness. This presumes and creates, as well as keeps up, an uninterrupted air of trust.

As the results of the previous study pointed out, economic rationality does not weaken trust relations. It’s just the reverse: it can integrate as a resource the wider social relations regulated by the readily available norm system, including, among other things, the sources of the trust needed for economic cooperation.

At first, the source of the trust relations of cooperation was the control system provided by the relatively closed community. “Here, everybody knows everybody; we all know what the other is doing and how much we can trust him” (the mayor, 52). At the start, cooperation was nothing but mutual support aimed at establishing the professional and physical conditions of the enterprise. By the end of this process, the individual parties have become independent entrepreneurs. Alongside this, as we have mentioned, a professional specialization has also taken shape. As a result of gaining independence, cooperation has loosened up, but it has

not totally been discontinued; the entrepreneurs undertake assignments in virtually the full spectrum of wood industry works related to interior design. However, the assignments are no longer integrated, as they were in the case of the great projects of the past, when each and every professional skill was made use of; now, they are coincidental, in accordance with the needs of the inhabitants' needs. Cooperation is nothing but recommending each other to a client, or doing favors for those in need (e.g., there is not enough wood available or its quality is not sufficient). This means that cooperation is based on trust relations (reciprocity) as an additional resource is mobilized in order to keep customers, and not in production (the tendency of the beginning of the 1990s). Cooperation provides skills that one lacks, and that the increased competition requires from the micro-businesses.

The relationship of the former outworkers and local as well as national entrepreneurs was hierarchical and was characterized by a unique mixture of partnership relations. At the beginning, the national entrepreneur directly employed outworkers; in the case of greater projects, however, he agreed with the local entrepreneurs, who, in turn, distributed the various tasks among the outworkers. At the onset, the local and national entrepreneurs sold machines or raw material on credit to the outworkers, who later paid back them through quality work. Their relationship was paternal, as it were; the outworkers expected help and orders from the local entrepreneurs, in other words, they risked their livelihoods in this relationship. The other side, that of the local and national entrepreneurs, realized the paternal nature of the relationship; yet, they treated it in a rational and economics-influenced way: they provided support as long as they could be sure that their investment would be refunded (e.g., in continuous and good quality work).

The process of the outworkers acquiring independence somewhat modified their relationship with the local entrepreneurs. The basis of their previous relationship was trust: the outworkers, just launching their venture, with little or no resources on their own, were given support which they did not have to repay *directly*. After gaining independence and the stabilization of their entrepreneurship, the trust relationship was preserved, but, at the same time, market-oriented elements began to play an increased role: the former outworkers were assigned orders by the local entrepreneurs; in case they could not satisfy the orders due to lack of capacity, they themselves became customers, mostly buying wood. As one of the local entrepreneurs recalls, "Here, there is a carpenter who produces doors and windows exclusively. This man buys the wood from us; he is one of our most important regular customers" (a 45-year-old local entrepreneur).

The interpersonal relationship of the local entrepreneurs is built upon cooperative elements, in the background of which there are non-economic relationship patterns. Most of them had known each other before becoming independent entrepreneurs; their lives intersected at several points in the past. They have known each other since childhood, many of them were schoolmates, and they often worked for the same company, too. For them, the source of operating a successful venture lies in the ability to find one's way in the social field, to possess stable and wide-ranging relationships.

Business-related as well as non-business-related elements mix in their mutual relationships. The common personal history and generational background, as well as sports, as integrating forces constitute an important sense of togetherness for them. An active sporting life is generally a force to keep larger communities together, anyway, and as such, it is a relationship model, too. For more on the integrating effects of sport, see below.

Their interpersonal business relations were cooperative, but a defining factor was the logic of the market: they were trying to preserve their professional and organizational autonomy; their most important aim was to strengthen their market position. Their relationships are interwoven by those already available norms and values that root in the traditions of the village, and that, among other things, prescribe the importance of the

respect of community and the necessity of mutual support.

The role of economic rationality is quite evident in their acts, and thus, the norms and values of the community have been reevaluated and begun to operate as partial economic resources. This means that they still want to preserve their informal relations, “to take care of one another,” and to support each other in case of need. Behind the cooperative model of economic relations lies the recognition of the fact that *as long as the market circumstances allow it*, it is not worth risking long-term stability for the advantages of a competitive attitude. As one of the entrepreneurs dealing with contractions and distribution said, “We never felt that we were rivals. We have the largest wood businesses. There is a man from another village, he is 60 years old now; he has premises like mine. He is the second. You won’t find anybody else with a business like ours until Budapest. We do not disturb each other’s territory; we could cut prices, then everyone would come here, but then we wouldn’t have margins enabling us to stay alive in the long run” (a 45-year-old local entrepreneur).

By stabilizing their positions, the local entrepreneurs have created a stable market for themselves; nevertheless, the cooperative model directed by rational economic interests does not only operate within the borders of the village. Under the current market conditions, in case one needs it, they provide mutual support, for instance, the timber merchants in the area help each other. “If I lack some sort of material, I call him and he sends it to me right away” (a 45-year-old local entrepreneur). The basis of the business relationships is mutuality and *trust*: the one giving support rightly hopes that his help will be repaid in the long run. The cooperative elements of this kind of attitude have been thrust in the background in the wake of the consolidation of economic conditions; however, they are “kept alive” through more or less institutionalized internal economic cooperation.

The national entrepreneur played a unique role in establishing and operating the entrepreneur network. Using his professional, organizational and political skills, he managed to integrate the heterogeneous groups of the entrepreneurs into a network that is able to effectively and flexibly accommodate to market conditions. Through his activity, he succeeded in creating an industrial district based on the sometimes loose, sometimes strong cooperation of the entrepreneurs. His integration role was most evident in setting up the frames and norms required to operate the network. “Supporting each other has always been a tradition here. My task was to simply preserve this tradition; I had to nurture it, get it to function and give it a meaning” (a 64-year-old national entrepreneur).

There had to be numerous other economy-external conditions, too, to get the cooperative economic model to function: first and foremost, the tradition of trust relations that formed the basis of the cooperation. At the same time, the case of I. shows another possible factor: the creation of the system was largely supported by a charismatic personality, who had clear plans, and was able to get the existing trust relations going and use them in business relations. It is not clear whether his occurrence was inevitable; in other words, it is a question how much he was a “product” of the village, and to what extent he was but an outstanding case.

After his retirement, the network is still functioning, but—parallel to the consolidation of external factors—the cooperation of the members has loosened considerably. His links to the community have not broken up, what is more, they are more vivid now; he is active in preserving and developing the traditions and values that keep the community together. “My father was the local teacher in the village, then, after the war, he became the headmaster. He gave a moral basis for the community, which is still evident today, and I think I am the one who preserves it” (a 64-year-old national entrepreneur).

Besides his economic and societal organization skills, the importance of his activity is evident in that he realized the connection between the economic and social relations of the community; more exactly, that economic activities are embedded in social relations. Cooperative economic and social relations are dynamic;

the development of one will successfully support the other: “At the beginning of the 1990s, we had the chance to get compensation for an old school building. Then I appointed myself as an advocate of this cause and contacted Imre Kónya, who was then the Interior Minister and a good friend of mine, to get 6.5 million Ft out of turn. I designed the new congregation building; we built it for 30 million, mostly in community work. This had two important consequences: people got jobs, and a spirit of community came into being, which helped to keep the village together” (a 64-year-old national entrepreneur).

The national entrepreneur no longer leads an active business life, but he uses his relationships to support the village entrepreneurs.

## 5. Integrating values and institutions

As we have shown above, there are numerous economy-external conditions that play a role in managing a successful cooperative economic model within a given community. The interpersonal relations of participants in economic life are shaped, not solely by interest seeking based on rational calculations, but also by numerous norms, values, and institutions.

The first study identified three outstanding integration values that secured the successful cooperation of the small firms of I. These were: *professional values*, *trust relations*, and *ethnic affiliation*. In the area of professional values, the community of entrepreneurs created an easily identifiable form that could function as a group. The members of the group did and still do make records indicating their professional performance and capacity. These records make the effective sharing of work of the firms possible even today. Even if there are no projects that would provide a constant framework for the firms, the specialized entrepreneurs often recommend each other to customers, *complementing* each other’s activity.

Another integrating value was *trust*. An important precondition of cooperative economic relations is the mutual trust of the parties. In the case of I., the most important source of trust was the family ties of the village. Family ties still play a significant role in the sharing of work. A further source of trust is the controlling force of the community: each participant is mutually aware of the other’s activities; unconventional behavior becomes easily evident and may well be sanctioned in some cases. “I was never disappointed at the partnership relationships I created. Parents, as well as a grandmother, would never have allowed shameful deeds. We still have a patriarchic society here” (a 64-year-old national entrepreneur). They never record their transactions between them on paper; all agreements are made orally.

*Ethnicity* is the third integrating value. It is a value in the widest possible sense, which practically involves the whole village, the majority of which is of Germanic origin. It was the history of the village through the people’s ethnic affiliations that made the village a close, yet closed, community. The ethnicity issue has always been an underlying part of the cooperation of the firms. In the past few years, all three values have preserved their significance. At the same time, out of them, it was the third ethnicity that gained an increasing degree of emphasis, not the least because after the change of the regime, the issue could be addressed in public. In the past decade, the relationships of the village with two former “mother villages” have revived; there have been a number of publications appearing detailing the history of the village and its families. According to the mayor of the village, who has been elected four times, the purpose of these is to strengthen community spirit and identity.

The economic attitude of the entrepreneurs and the social values integrating them are in a dynamic relationship. There have been several developments in the family based on the cooperation of the firms (e.g.,

the renovation of the school). These further developed the cooperation of the ventures, as well as strengthened the system of norms on which the cooperation of the firms is based.

The values strengthening cooperation are partly given, such as one's family or school; yet, a number of institutes have been established that contribute to the preserving and renewal of local patterns of cooperation. The first study mentioned several such institutes. Next, we will attempt to show what has happened to these institutes, to what extent they have been modified, and whether there are new ones helping integration.

*The Foundation.* It was established in 1991 by the local government to create jobs, to preserve the environment, and to improve the state of the elderly and the minorities. The entrepreneurs of the village gave it financial help, too. At the time, they could not achieve the original aim, namely, to create more jobs. Nevertheless, through the Foundation, it became possible to grant employment in already existing firms. Today, the Foundation has welfare tasks: they, for example, provide support for students to cover university or college expenses.

*Sunday talks.* The national entrepreneur visits his mother every weekend, and this gives him an opportunity for informal talks, discussions with varying length. These talks are still held. The topic and the participants are not predetermined, yet they are mostly those local entrepreneurs who have some sort of influence on the village's affairs. It is during these talks that they discuss future developmental plans.

*Free time club.* One of the local entrepreneurs built a fitness room in the basement of his house, which he ran as an open club. The fitness club was to have helped the non-economic integration of the entrepreneur elite; however, in the last two years, only the family of the entrepreneur has used it. In his words, "Somehow, I don't know but suddenly no one was coming any more. Only my daughter uses it every now and then" (a 45-year-old, local entrepreneur).

The fact that the free time club has lost its function is indicative of the loosening of the social ties between the entrepreneurs. This shows the dynamic character of the social and economic integration values; the loosening of economic cooperation presumably weakens every initiative for non-business-related cooperation.

*The Entrepreneurs' Club.* The fact that the Entrepreneurs' Club was a failure also backs what we said above. The club was to have provided a ground for informal information exchange for the leading entrepreneurs of the community.

Here we must also mention another attempt, a plan to open an enterprise office. In the office, situated on the premises of the local government, the entrepreneurs commonly employed an employee whose task was to gather information on the market, competitions, financial aids, etc., and make it available. The office only worked for a short time; why it was closed is not clear. According to some, it was due to illness; others say there was no interest in it. Altogether, everyone admitted that there was indeed a need for an office like that, but following startup, it failed to become institutionalized.

There could be several reasons behind this phenomenon, but in our view, all this partly shows that cooperation between the participants can be developed as long as the economic interests of the parties allow for it. More generally, the economic and social factors regulating the cooperation of the entrepreneurs are not independent of each other. Their relation is dynamic, which, however, does not mean that the development of any of the factors will necessarily result in the strengthening of the other. In our view—especially in the case of non-economic factors—what we have at hand are potential resources, which might be mobilized in case of

need, and which might help a more effective and more flexible accommodation. The utilization and “re-conversion” of resources hidden in social norms into economic advantages depend on a great number of social and economic processes, interests, values and traditions affecting macro and microenvironments. The case of I. has shown that, after an economic crisis, building upon professional values, trust and ethnic resources, it is possible to create a cooperative economic model that is flexible and can accommodate to the market’s needs in an effective way, and one that is able to stay alive in the long run, too.

## 6. Summary

This paper has attempted to prove that, in contrast to the views of neoliberal economic theories, a successful market attitude cannot only be based on the individual actions of the entrepreneur and his competitive behavior. We showed that there exists a successful and effective economic model that bases itself on a certain kind of mixture of competition and cooperation, in which the firms with specific skills and tasks are related to each other in a loose network. In such a case, individual success is dependent on the effectiveness of the cooperation of the entrepreneurs. There are, however, non-economic factors shaping the behavior patterns regulating the cooperation; they involve, among others, trust and ethnic relations of the local community.

The carpenters in the study established a high level of cooperation while they were not in an institutionalized organizational relationship with each other. Functionally, we could distinguish three subgroups of the firms participating in that cooperation: outworkers, local and nation-wide firms. The members of each group had a similar career, knowledge base and method of acquiring their skills. A common factor, however, is that the enterprise-related skills developed as a result of some former cooperation.

Some of the institutions providing the framework for the firms’ cooperation are already accessible, onto which norms regulating economic relations are built. These include family ties, neighbor or friendship-related relationships, as well as links to colleagues at various former working places. There are, at the same time, deliberate attempts to create institutions with the task of helping integration; these include the Foundation or the Free Time Club, which develop non-economic cooperation among the entrepreneurs.

Other, economy-external values also affect the cooperation of the parties involved. We have identified three such values: professional value, trust and ethnic affiliation.

In the past decade, consolidated external economic and social relations, as well as positive changes in the economic situation, have modified, yet have not eliminated the cooperative economic model.

The former outworkers have become stronger; their ambitions have, however, remained at the level of family micro-enterprises. They still depend heavily on resources provided by their family. The local entrepreneurs have successfully integrated their skills and links they had gained before the change of regime or later, during the large projects. They have deepened their organization-management and business skills, and they have enlarged their former system of relationships and relational patterns outside their village, in the form of regional cooperation. However, their competence and knowledge related to managing a business venture has not improved *qualitatively*; generally, they lack the political competence to recognize and utilize wider social interests and relationship systems of business enterprises.

The findings of the research indicate that the presence of a charismatic personality, as well as the institution he managed, was indispensable. He was responsible for integrating the activities of the business partners. Later, the cooperative model was able to function automatically, which was made possible by economy-external behavior-regulating patterns. With the consolidation of external economic factors, the

cooperative elements of the relationships have been thrust into the background, and the former trust relations have institutionalized in an economic sense; the former partners have now become each other's customers. At the same time, the cooperative links are continually being refreshed, primarily through non-economic activities. This is shown by the fact that the three most important social values integrating the cooperation of the entrepreneurs have preserved their leading role, with ethnicity becoming the most prominent force keeping a community together.

The fact that some of the institutions planned to strengthen the integration have ceased to function, or have not been set up at all, indicates the loosening of the economic cooperation relationships. This shows that the cooperation between the participants can be developed as long as the economic interests of the parties allow for it. More generally, the economic and social factors regulating the cooperation of the entrepreneurs are not independent of each other and mutually strengthen one another. Factors outside the economy may nevertheless be regarded as potential resources, which could be mobilized in case they are needed, but they do not operate automatically in the regulation of economic activity. In this respect, we would like to call attention to the fact that the test the persons participating in our study have to face in the EU may further facilitate the deepening of the existing cooperation, and may give new meaning and function to the institutions of integration established in the past ten years.



## 11. *The Cooperation of Small-sized Enterprises in the New Media Sector (Hungary)*

Peter Csizmadia  
Csaba Mako

### 1. **The development of the home page of a public office**

In this case study we are describing cooperation among three companies within the framework of one common project. The project involved the design and development of the homepage of a public office under the Hungarian Ministry of Finance. The companies participating in the project partly or fully operate in the new media sector, i.e., they produce mainly digital products and provide related services. We have selected this sector, as it has many characteristic features that well illustrate the specificities of the operation of knowledge-based networks and the production of social capital.

The strengthening and rise in the world of the new media started in the middle of the nineties. The companies operating in the sector are mainly small or micro-enterprises. A high level of specialization of working tasks and related knowledge is typical of this sector. Interactive media products are usually produced in short-term projects, as a result of cooperation among the companies. New Information Technology (IT) significantly supports the operation of networks created among companies. Companies in the new media sector usually operate in large cities with universities or other tertiary education institutions. (3)

With a few indicators, we will describe the economic environment in which the players cooperate during the project. All of the enterprises participating in the project are registered in Budapest. Concerning the basic economic indicators, Budapest is the most developed region of the Hungarian economy. The data below presents the most important economic characteristics of Budapest in comparison with the data referring to the moderately developed Pest County surrounding the capital, and the national data for Hungary as a whole. We have selected Pest County because of its geographical proximity and its intensive economic relationships. The following table presents the employment data of the capital, Pest County and the Hungarian national average on the basis of the data of the Central Statistical Office from the year 2001.<sup>52</sup>

**Table 1: Budapest, Pest County and Hungary, 2001 employment data**

<b>Region</b>	<b>Economically active population</b>	<b>Employed</b>	<b>Unemployed</b>	<b>Activity rate</b>	<b>Unemployment rate</b>
	Thousands			%	
<b>Budapest</b>	797.3	763.8	33.5	57.2	4.2
<b>Pest County</b>	451	430.7	20.3	56.4	4.5
<b>National</b>	4092.4	3 859.5	232.9	52.4	5.7

<sup>52</sup> Statistical Yearbook of Budapest 2001., *KSH, 2002*; Hungarian Statistical Yearbook 2001., *KSH, 2002*; Statistical Yearbook of Pest County 2001., *KSH, 2002*.

The table demonstrates that the employment situation in Budapest is slightly better than in Pest County, and is much better than the national average both in terms of the activity rate and the unemployment rate.

*Table 2: Investment in the national economy, HUF (based on company data), 2001*

<b>Investment in the national economy (million HUF)</b>	
<b>Budapest</b>	1,401,291
<b>Pest County</b>	277,339
<b>National</b>	3,122,091

As the table illustrates, nearly one third of the investment is concentrated in Budapest. Altering the data on the basis of population does not lead to a significantly different result (one fifth of the Hungarian population lives in Budapest).

*Table 3: Per capita investment, 2001*

<b>Per capita investment (HUF)</b>	
<b>Budapest</b>	806,266
<b>Pest County</b>	254,907
<b>National</b>	306,719

The other indicator of the economic development of the region is the number of operational enterprises. The following table provides information in this regard:

*Table 4: The number of operational economic partnerships per region, and nationally, 2001*

<b>Number of operational enterprises (partnerships, individual)</b>	
<b>Budapest</b>	239,426
<b>Pest County</b>	88,954
<b>National</b>	840,575

As the table shows, nearly 30 % of the operational enterprises are located in the capital of Hungary. In the case of enterprises with some degree of foreign ownership, this concentration is even higher. It means that every other partly foreign owned enterprise is based in Budapest.

*Table 5: Number of foreign owned enterprises, 2001*

<b>Number of foreign owned enterprises</b>	
<b>Budapest</b>	13,584
<b>Pest County</b>	1,864
<b>National</b>	25,365

GDP per capita provides more information on the competitiveness and economic development of the region.

**Table 6: GDP per capita, HUF, 2001**

<b>GDP / capita</b>		
<b>Region</b>	<b>Thousand HUF</b>	<b>Percentage of the national average</b>
<b>Budapest</b>	2,592	201
<b>Pest County</b>	1,004	99
<b>National</b>	1,288	

The Central Statistical Office gathers data on companies in computer technology only at the national level; therefore no regional comparison can be drawn. In 2002, 7,176 enterprises operated in the sector; their net sales revenue amounted to 364,660 million HUF. These enterprises employed 24,055 people altogether. The table below shows the distribution of companies in computer technology according to the number of employees:

**Table 7: Employment capacity of computer technology enterprises, 2002**

<b>Number of employees</b>	<b>1 – 9</b>	<b>10 – 19</b>	<b>20 – 49</b>	<b>50 –</b>
<b>Number of companies</b>	6,780	227	111	58

Based on the above data, the majority of the enterprises in the sector qualify as *small* or *micro-enterprise*. In conclusion, we can say that the enterprises in the study operate in the economically most active region of the country, with the highest number of economic partnerships, the highest volume of investment and foreign capital, and the highest GDP per capita. At the same time, as we referred to it in the introduction, the small size of enterprises is a distinctive sectoral specificity. The small size of enterprises in the new or interactive media sector is far from being solely a Hungarian feature; the same can be observed globally. In this respect, enterprises operating in this sector in countries that are in the vanguard of activities, such as Sweden, employ fewer than ten people on average. (Sandberg – Augustsson, 2002.)

## **2. Short description of the project and participants**

As indicated in the introduction, the project was established with the aim to design and develop the home page of a public office. The homepage was launched in January 2002, when the Office issued a private tender with six bidders invited. R. Ltd., the later prime contractor, was one of the bidders. R. Ltd. cooperated with two companies, and the three companies collaborated and submitted the application jointly. The tender involved three phases; in the end, R. Ltd. won the tender. The contract was signed in April 2002 between the office and R. Ltd. According to the original timetable, the project should have been finished by September 2002, but the project lasted until the beginning of 2003. The task consisted of the following parts:

- The design of the visual elements and the image of the website
- Web design
- Programming

Companies participating in the project were as follows.

#### **R. Ltd.**

R. Ltd. is an art studio operating in the form of a family firm, which was established in 1995. The activity of the firm covers:

- Graphic design and implementation
- Image development
- Artistic activity
- Management of art projects.

The company was established by three private persons as the successor of R Private Gallery, which was set up in 1990. Besides the three founding owners, there are no employees. They mainly deal with image development and graphic design, and they carry out the implementation activities in cooperation with strategic partners (e.g. printing). Their clients are from the private and public sectors, and they mainly provide customer-tailored solutions for major clients. The three owners carry out their activities according to a well-defined division of labor: one person deals with creative activity, one is responsible for customer service, and the third takes care of the implementation of projects.

#### **C. Ltd.**

The company was established by young programmers in 1998. Their field of activity mainly covers development projects in connection with the Internet, including:

- Programming
- Counselling
- Content management
- Site management
- Website development.

It is a classical IT company, i.e. they mainly concentrate on the technological aspects of the new media: programming and development. The company was established from the former development unit of Index. Index (previously Internetto) is one of the first Hungarian Internet portals. The founders and owners of the company maintain active, cordial relations with those who have worked for Index. The number of employees often changes; usually it is around 8-10 people. The majority of them are developers, but there are also project managers and administrators. As their main activity is development, sometimes they also employ freelancers, if necessary, to carry out activities the company has no internal capacity for (e.g. they do not have a design-specialist).

#### **K. Limited partnership**

This is a two-person web-design studio. The founders also previously worked for Index. They mainly provide HTML and Flash-based solutions, usually as subcontractors.

The implementation phases of the project are as follows:

The general scheme of the implementation of Internet projects is as follows:



The particular phases require different skills and knowledge, which are often not available within one organization. Thus, the companies often need to involve external resources to implement the tasks. The specific phases are almost never implemented in this form in practice; there is often a need to ex-post corrections within and between certain phases, thus the constant coordination of the activities of the parties is vital.

The project in the case study was implemented in several phases.

1. The Office issued the tender and invited 6 bidders, including R. Ltd.
2. R. Ltd. decided to apply for the tender. They were aware of the fact that the resources of their company are not sufficient to implement the tasks, thus they sought partners. Through their contacts at Index, they found K. Limited partnership, which recommended C. Ltd. to develop the site.
3. The future partners negotiated a common platform. They decided to apply for the tender and to write the application jointly, and they also specified the responsibilities of the particular players.
4. Each company started to gather information on the task, and compiled a document on the specific sub-task they were responsible for.
5. After a short conciliation, they compiled the final application document, which was formally submitted by R. Ltd.
6. The selection procedure took place in three rounds. According to the preliminary agreement, R. Ltd. and C. Ltd. participated and presented their viewpoint jointly in each round.
7. Having announced the winning tender, the Office entered into a contract with R. Ltd., which concluded sub-contractor's agreements with C. Ltd. and K. Limited partnership.
8. The implementation of the project commenced.

### **3. Skills and knowledge necessary to implement the task**

The three participants of the project had, and participated in the project with, different skills and resources. This was due partly to their different professional competences, and partly to their different positions in the project structure. The existing knowledge, the source of the skills, and the mode of the acquisition, were also different in the case of the particular companies. Each participant had specific professional-technical knowledge and social skills, which made cooperation possible. At the same time, the different types of competences had to be utilized in line with the different requirements of the sub-tasks of the project. The different types of knowledge were also divided within the company.

R. Ltd. participated in the cooperation with creative design and the management of the whole project. Thus, they both needed creative competence and organizational and management skills and market acquisition

abilities. Their accumulated knowledge, primarily social skills and capacities which made market acquisition and the coordination of the cooperation possible, are not “off-the-shelf” products, they are the results of a long learning process at the workplace. They obtained the necessary skills through a long knowledge-building process, in which the previous activity in the gallery and the artistic and art management activity was an important phase. During this phase, they had to learn the skills necessary to create and maintain business contacts. *“We never learned this; originally we worked in the field of art. When we started the gallery, we had no idea about the operation of enterprises, we did not know how to manage them, how to negotiate or how to find investors” (Owner, R. Ltd.).*

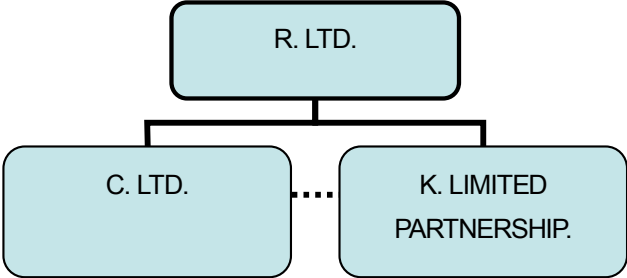
From the point of viewpoint of the project, the ability to integrate different types of knowledge was of the utmost importance. As the different knowledge-types necessary to implement the tasks are of a very specific nature, they are not transparent and controllable from “outside,” while at the same time there is no hierarchy among the different types of knowledge. A major precondition for this is the ability to specify the tasks adequately. It means that the project manager should be able to understand, clarify and “redefine” the demands of the customer as tasks to be implemented for the participants of the project. This step is necessary so that in a later phase the project development could be measured and the performance of the participants could be evaluated. *“We have provided complete customer service. The client presented his demands to me, and then I had to interpret those demands so that we could define them for ourselves. (...) Our relationship was good because the tasks were properly defined; they were written down and you did not have to do anything else but tick the tasks you had completed. Of course, we needed some time to reach this stage. The secret is that you must define the task very well. That way you can avoid misunderstandings. This is why constant partners are so important; in this case, a special terminology is already established regarding the definition of the tasks.” (Owner, R. Ltd.)*

C. Ltd. primarily contributed to the project with technological know-how. They regarded it as an advantage that customer service was run by R. Ltd., the prime contractor. In addition to technical knowledge, they also needed the management skills to run internal affairs within the company. One of the general problems of the interactive media sector is that the majority of the necessary technological skills are not available through the formal training system, and if they are, small companies cannot afford to pay the fee. Another major problem is that Internet development skills become obsolete very fast, even within the IT sector. Thus, those skills can almost only be obtained at work (on-the-job-training). This is partly done via the Internet, and also through direct exchange of skills among colleagues. The latter requires a developed cooperation skill based on trusts-based relations. *“Php. is not a subject at the university; you get help on the web and you start programming in php., or you get on a team which is using php. programming, and you adapt yourself to this practice. You can only learn how to program in php. by doing it, and when you have problem, you ask the others. The practical acquisition of the knowledge is dominant.” (managing director, C. Ltd.)*

The K. Limited partnership participated in the cooperation almost exclusively by technological know-how. They did not receive formal education; they mainly gained their professional experience at Index. Participation in the project was basically a money-making activity for them. Their primary motivation was practically direct profit-making activity, which—as we will describe later—created problems in the cooperation.

**4. The establishment and maintenance of the network**

The network established among the three companies created a hierarchical project structure. The whole project was coordinated by R. Ltd., and they were also responsible for customer service. The following figure demonstrates the structure of the project.



The parties entered into a contractual relationship, C. Ltd. and K. Limited partnership entered into a subcontractor’s agreement with R. Ltd. At the same, the parties deemed it much more important that they were able to define the particular subtasks, the related responsibilities, and deadlines precisely when preparing the tender application documents.

It can be seen in the figure that each member of the network communicated with the others. The direction and means of communication were determined according to certain rules set preliminarily. R. Ltd. expressed its need for properly elaborated communication already at the time of the project application. Having prepared the timetable and delegated the different responsibilities, the parties worked out the future model of communication. They agreed that customer relations would fall exclusively under the domain of R. Ltd. They also received information from clients, which they clarified, classified and forwarded to the partners after filtering out the irrelevant content. *“We had a draft plan for communication right at the beginning. We kept contact with the Office and provided the subcontractors with regular information, but everyone received information adequate at their level. It was processed information. The Office sent us a record with more than ten points; they did not receive it as such, but we redefined it, we broke them down into tasks and both companies received only the relevant ones, which means that we forwarded reassessed information. They accepted our leading role; it was also easier for the subcontractors because they did not have to deal with the clients, which takes a lot of time and energy (owner, R. Ltd.)*

During the project, the parties contacted each other mainly via electronic communication means. Mailing was done in a structured system, documents were labelled, and the different documents were categorised (e.g. records, responsibilities). Electronic letters were also documented in a print version.

When preparing for the communication, personal meetings were also planned. These personal meetings were held especially when joint decisions had to be made (e.g. major changes of responsibilities, changes in prices, etc.).

This well-structured and regulated communication made monitoring of the tasks and settling disputes easier.

Tasks were also distributed within the companies. In R. Ltd., one person carried out professional work, one person was engaged with daily customer management, and the latter one was also responsible for the whole project. In C. Ltd., two developers were commissioned whose activities were coordinated by a project manager.

Contacts among the three companies created a focused network of chains of loose links. The structure of the network, and the content and the form of the contacts among the parties, were defined by the tasks to be

performed. The function of well-defined communication and control mechanisms was to create and maintain an atmosphere of cooperation.

## 5. Changes in the relationships of the partners

The partnership of the three parties can be characterised by the willingness to cooperate from the beginning. This is partly due to the practice they gained in project-based organizational structures, and partly to the fact that none of them had the necessary specific skills alone. Cooperation in their case ensured successful business operation through the integration of existing resources. *“If we can not solve the tasks, we cooperate; we have many strategic satellite companies we work together with. The client often asks for everything from A to Z, so for example, we also have a printing office. In these cases I undertake everything, I keep the client in hand, and I determine which work phase the subcontractor is involved in.”* (managing manager, C. LTD.)

R. Ltd. started to seek partners before applying for the tender; they did not have preliminary working experiences with either firm. At the beginning of the cooperation, their previous contacts with K. Limited partnership in the circle around Index, and in the case of C. Ltd their previous development activity at Index, was their professional reference.

The basis of stable and steady partnership is long-term mutual interest. In the case of these three companies, there were slight differences among their interests, which also affected their internal relations. In the case of R. Ltd. and C. Ltd., the main motivation behind the participation in the project was market acquisition and provisional further businesses, as opposed to K. Limited partnership, which did not have a developed market strategy, and was primarily interested in direct profit making and short-term cooperation.

These slightly different interests had an impact on the behavior of the parties in the cooperation. The relationship between R. Ltd. and K. Limited partnership remained slightly hierarchical until the end of the project. However, this hierarchical relationship was also due to the fact that the professional competencies of the two companies were similar, and thus the control was tighter than between R. Ltd. and C. Ltd.

The relationship between R. Ltd. and C. Ltd. was based on partnership throughout the project, and it can be characterized by the respect of mutual interests and values. A key factor in the good cooperation was that the development activity successfully managed in C. Ltd. Two programmers and one project manager was dealing with the project. Their cooperation was supported by several indirect economic and social patterns. The co-workers knew each other, they had all worked for Index, and the joint professional history was an important link for them. Besides, the several contacts outside the workplace also constitute an integrating factor in company relations. *“This is not a tinned food plant, where you are sacked because you are five minutes late in the morning, and in the evening there is another guy in your place, who also knows what to do, just as you. This is another type of workplace. The team is quite tough in pubs, but we also exercised that when we worked for Index. (...) It is more like a family; we have to live together, and we must manage conflicts. If there is a conflict, we do our utmost in order to be able to solve it. I often feel more like the head of a family than that of a company...”* (Managing director, C. Ltd.)

The task of R. Ltd. was the efficient integration of resources. Their most important role was that they were able to create the frame necessary to manage the project, they were able to arouse the interests of the partners in the cooperation, and they were able to validate the values that steadily integrated the partners.



## 6. Internal and External Relations

The parties in the cooperation did not have common work experience previously, thus they did not have the time to gain the necessary experience to establish and maintain trust-based relationships. The necessity to utilize the divided knowledge jointly, however, contributed to the establishment of trust-based relationships during the project. The basis of these relationships was the mutual respect of each other's competence, and the joint system of values and norms primarily regulating the emerging cooperation.

Trust-based relationships are never born in a "vacuum;" they are primarily formed by the experience of the partners in the network. In the absence of joint experience to integrate the cooperation, the prospect of future cooperation and the values emerging during the joint activity ensured the operation of the network in this case.

When the project was launched, one of the basic values of the cooperation was explicitly defined by R. Ltd., the integrator, namely that specific solutions should be aimed for during the implementation of work, i.e. the parties should be creative within the defined boundaries. From the viewpoint of the integration, however, the unarticulated values and norms that were "produced" by the relationships were of major importance. As opposed to the above-mentioned professional values, these primarily referred to the know-how of work performance, the so-called social-cultural knowledge. We identified three core values of this type: timeliness, flexibility and reliability. The first referred to keeping to deadlines, the third to the quality of the tasks performed.

Besides the long-term mutual interests, primarily operational mechanisms had to be operated that enabled the establishment and maintenance of the above mentioned values. The integrator had a key role in this process, and as a quasi-broker, practically created the codes through which the integration of the different knowledge-types (including that of the client) was made possible. The integrator also ensured constant information flow, which was transparent for each party, and thus he created the opportunity of *mutual* control. The occasional personal meetings, whose hidden function was to strengthen the internal relations among the parties, contributed to this process.

All this, however, also required that the organizations participating in the project successfully manage their sub-tasks. They had to adapt to the frequently changing conditions with an adequate level of flexibility in order to avoid the emergence of "structural holes" in the cooperation. This was realized in the form of a dense network presupposing a high level of specialization and efficient control mechanisms within the organizations, i.e., strong links containing intensive relationships.

The companies in the case study all operate in Budapest, thus direct relationships typical of smaller and closer communities are not present in their operations. Nevertheless, there are "practical" communities existing, which are organized on a professional basis and informally. Their function is as follows:

- They facilitate contacts and identification of the members of the community
- They operate as a reference mechanism, and they provide information on the members of the community
- They facilitate contacts between the members of the informal community and those outside the community
- They enable the members of the network to share the knowledge and to create new knowledge (Lesser, 2000)

Such informal meetings are mainly typical of informaticians, who exchange numerous pieces of business and technical information there.

Creating formal links via institutions to professional communities, however, is not typical at all. It was a widely held opinion that professional organizations primarily represent the interests of large companies, that they are not able to provide information and to represent professional interests, because they are organized in a business-oriented way. The majority of companies operating in the new media sector are new, start-up enterprises characterized by a lack of capital. There have been several attempts to harmonize the activities of the companies and to elaborate a norm-system regulating the market, but so far they have all failed. In general, there are no attempts and political willingness that would enable them to influence their wider environment. On the other hand, the market is so segmented, with so many players, that interest representation seems to be utopian thinking for the time being.

## 7. Summary

We have demonstrated a task-specific network and its cooperation mechanisms in our case study. The characteristic feature of the cooperation is that, as opposed to networks of strong links operating in closed communities, the “ready-made,” extra-economic social institutions (e.g. ethnicity) are not markedly present.<sup>53</sup> The time dimension creating the basis of trust-based relations is obviously missing from the newly developed and task-specific cooperation. The emphasis instead is transposed to the more or less formal framework, which ensures the reciprocity of parties in their internal transactions.

In the case of a highly specialized task division, the integration of relations is ensured by two important factors besides long-term mutual interest: the ability to integrate the different types of knowledge and to play the role of the intermediary, which creates a common background, and respect of the mutual values that are created in the cooperation, and which primarily refer to the norms of cooperation.

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<sup>53</sup> See case study on the role of ready-made institutions and on the operation of entrepreneurial networks based on strong links written for Sasakawa Pearce Foundation: Peter Csizmadia – Csaba Mako (2003). The rearrangement of economic and social resources in cooperative networks (Ten-year-long history of trust-based regulations of economic behavior), Budapest: *Institute of Sociology, Hungarian Academy of Sciences*

**Methodological note:**

We have presented the operation of an entrepreneurial network of three companies in our case study. Due to the logic of the case study, we targeted the exploration of specific characteristics, rather than statistical representativity. Thus, in order to implement the task, we gathered qualitative data. We carried out structured, in-depth interviews with the most important participants in the project, the managers of R. and C. Ltd., four times in Budapest. We quoted two participants in the case study. We would like to take this opportunity to thank them for their support.

The interviewees were as follows:

<b>Interviewee</b>	<b>Sex</b>	<b>Status</b>
R. H.	F	Owner, project manager R. Ltd.
B. I.	M	Managing director C. Ltd.

## 12. The Operational Problems of Economic Networks in the New Media Sector (Hungary)

Peter Csizmadia  
Csaba Mako

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### 1. Introduction

In the present case study we are going to present a model of cooperation established among small and micro-enterprises to implement a joint project in the interactive media sector. The study also covers the theoretical background that is instrumental to describing the cooperation, furthermore, it sheds light upon the economic and labor market environment of the project. The analysis of the case focuses upon the economic and social regulatory mechanisms that exerted influence on the behavior of the partners in the cooperation, and shows how the specific interests of the parties and their interaction enhanced or impeded the successful implementation of the project.

We decided to deal with the cooperation among companies in the new media sector and selected a concrete example to demonstrate the problems arising from such cooperation. The rationale behind this choice is that in this sector business models based on cooperation among small and medium-sized enterprises that share resources, primarily knowledge, are fairly common. This model can at the same time serve as the model of the network economy.

To provide a more transparent picture of the case, we are going to present some economic and labor market indicators of the ICT, more precisely of the new media (1) sector. In this we primarily relied on an as yet unpublished study by Tót-Makó-Tamási.

Based on 2002 data for the ICT sector, the proportion of those employed in this sector is approximately 3.6% within the national economy. The number of those working in the multimedia sector can only be estimated at 15-20,000 on the basis of available statistical data.

Based on their numbers of employees, the overwhelming majority of enterprises in this sector are micro- or small-sized enterprises, with very few medium-sized company exceptions.

**Table 1: Employing capacity of ICT companies, 2002**

<b>Number of employees</b>	<b>1 – 9</b>	<b>10 – 19</b>	<b>20 – 49</b>	<b>50 –</b>
Number of companies	6,780	227	111	58

*KSH, 2002; Hungarian Statistical Yearbook 2001.*

Based on statistical estimates, the number of enterprises in the field of multimedia development in the ICT sector is approximately 10-12,000. This accounts for 52% of the sector in total. Note, however, that the proportion of enterprises dealing exclusively with new media is significantly smaller.

The other specific feature of the new media sector is its geographical concentration. Enterprises with multimedia-related core businesses are concentrated almost exclusively in the capital, Budapest, and they are to some extent overrepresented in the university cities in the countryside.

Taking into account the conclusions of a study by Sandberg and Augustsson (2002) and our own results, we summarize some distinctive features of the sector below:

- Enterprises in this sector are young enterprises, the majority of which started their operations after 1996.
- Enterprises in the interactive media sector provide services exclusively for corporate clients; they do not offer direct production, sales or service activities in the retail sector.
- The majority of those working in interactive media are under 30 years of age.
- Professional and other types of knowledge required in the sector cannot be acquired through formal education channels, or can only be acquired with difficulties. On-the-job-training is a priority area.
- The combined knowledge to successfully implement multimedia projects is frequently not available within one organization; therefore, most projects are implemented in networks based on cooperation among various enterprises.

## 2. Producing the New Portal for the Economic Weekly

### 2.1 Description of the project and the partners involved

The project was launched in the second half of 2001. One of the leading Hungarian economic weeklies, T., replaced the whole management of its subsidiary, T. Online Plc., which was established to publish the weekly on-line. The new management was put in charge of developing a new Internet portal. They invited bidders to participate in two tenders; one tender was aimed at the design, the other at the technical development of the portal.

Hungarian and foreign companies were invited to bid for both tenders, with the future winning prime contractor, P. Plc. among them. P. Plc. won the tender for the design of the portal. The management of P. Plc. managed to be involved in the selection process of the winning bid for the technical development system in an advisory capacity before the final decision. In the course of the advisory work, P. Plc. got acquainted with M. Ltd., and suggested that M. Ltd. should be awarded the winning contract. T. Plc. decided to award both contracts to P. Plc. as the prime contractor. Later on P. Plc. subcontracted M. Ltd. for the technical development project.

Interviewees of this research are as follows.

Interviewee	Sex	Status
K. H.	Male	Owner, branch manager P. Plc.
P. T.	Male	Managing director M. Ltd.
G. I.	Male	Branch manager E. Ltd. (project process advisor)

## **2.1.1 Companies involved in the project**

### **P. Co.**

P. Plc. was set up in 1996 as a general graphic design studio, with a staff of two. In the same year it secured a contract for the development of a website; after that it gradually transformed its profile into that of a web-design studio. In 1999, it transformed its form of operation into a limited liability company, and the company's annual revenue reached HUF 50 million. At that time the company employed 10 people. The breakthrough in the life of the company came as it rode the Internet boom in 2000. In half a year, the number of employees increased to 40, and professional management was put in place. In 2001, 80 people already worked for the company; however, as the result of the dotcom crisis, the number of employees has dropped to 55 by now. The activities of the company cover the following two areas:

- Interactive communication
- E-business

The area of interactive communication includes services such as the design and implementation of on-line campaigns, on-line media design and purchasing, the development of brand websites, banners, interactive advertising and communication materials.

In the area of e-business, the design and development of corporate websites, intranet systems, electronic market spaces, and other transaction systems are included. In this area, the company has products of its own: a portal system and a content-management system. 90% of the company's activity is focused on services, while the remaining 10% is made up of sales.

### **M. Ltd.**

The owners established M. Ltd. in 2001 to further develop and distribute a then partly developed product of their own. The product is an XML-based (2) Internet portal framework system, operating several applications. At the time of the project implementation, the company employed eight people, out of whom six worked as developers, and two were responsible for administrative tasks. Since then the employees (and some of the owners) have been replaced. This process started in the course of the project presented in this case study. Currently six developers work for the company.

The two areas of activities are:

- Sales
- Online services, development

In distribution, the company primarily sells various units of technologies developed in-house, such as an editorial portal, an e-store, and a web-constructing application. It provides ASP services, which involve the operation and after-sale support of sold products.

### **I.G., advisor**

I.G. got involved in the advisory process prior to the final decision on the winning bid. Back then he was the manager of the Hungarian Internet portal named p.hu. The portal primarily provides services related to tertiary

education. Apart from this, I.G. is currently the director of the leading Hungarian entertainment and information magazine's online branch.

## 2.2 Stages of project implementation

In our second case study<sup>54</sup> we pointed out that the implementation process of Internet-based development projects is concentrated around three closely related stages.



The distinctive feature of this area is that the knowledge and skills required to perform the individual sub-tasks are rarely available within one organization; therefore, these projects are implemented within the framework of cooperation among companies. In the stages and tasks of the implementation process, various organizations are present according to their weight and expertise in a particular field. The cooperation of the partners is regulated by complex professional and social controls and cooperation mechanisms, which is primarily due to the partners' different competences. Like the second case study we presented, the portal development project of T.'s economic weekly was carried out in several stages:

1. The management of T., one of the leading economic weeklies in Hungary, decides to dismiss and replace the management of T. Online Plc., responsible for the on-line publication of the weekly.
2. The new management issues two invitational tenders: one for the design of the portal, and one for the required technical development.
3. The description of the tasks in the tender for technical development turns out to be inaccurate. P. Plc. suggests that an advisory process accompanied by a technological needs analysis should be initiated.
4. T. Online Plc. announces the first tender for the technical development void. They commission P. Plc. as an advisor, and P. Plc. involves an external collaborator, I.G., in the work. The advisory process takes two weeks to complete. During those two weeks, needs are being specified, and bidders present the technologies they offer. T. Plc. conducts negotiations with the bidders directly as well as through the advisors. By the end of the process, the technological demands of T. Plc. multiply as compared to the original ideas. P. Plc. suggests that the final decision be made in favour of M. Ltd., whom they recommended initially.
5. T. Plc. concludes a contract with P. Plc., the prime contractor, who then subcontracts M. Ltd. The implementation of the project commences.
6. As early as the first few weeks after the commencement, it becomes clear that M. Ltd. cannot meet the strict deadlines set down in the contract. Deadlines are regularly missed. The project that was scheduled for completion in three months takes six months to finish. In the meantime, part of the M. Ltd. development team is replaced.
7. The project is completed. T. Plc., acting within its contractual rights, obliges P. Plc., the prime contractor, to pay a penalty for the delay. P. Plc. imposes this obligation on M. Ltd.

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<sup>54</sup> Csizmadia, Peter – Mako, Csaba (2003): The Cooperation of Small Sized Enterprises in the New Media Sector, Budapest, *Institute of Sociology, Hungarian Academy of Sciences*.

### 2.3 Knowledge and skills required to perform tasks

The individual partners joined the project with different knowledge, skills and expertise. Different professional competencies were required to perform the individual sub-tasks. Besides, positions taken by the partners in the project organization were also different. As we are going to describe in detail, one of the main sources of problems was the unclear competences, and the lack of the coordination of these competences in order to carry out jointly one particular common task. This backs up one of the most important conclusions drawn from a previous example: in the operation of enterprise networks—especially in knowledge-intensive sectors such as new media—the capacity *to integrate* various knowledge and skills is of utmost importance.

P. Plc. participated in the cooperation by designing the image of the portal and fully managing the project. In their case, it was a unique combination of professional, business and social knowledge that was needed. Within the organization, these components of knowledge were present in a segmented way. The various forms of competence can be acquired in formal education to a different extent. The majority of skills and competences that are prerequisites for the successful integration of the cooperation (market acquisition skills, management and organization skills, etc.) can be learnt or developed only in several years of work experience.

A characteristic feature of Internet-based projects is that they are accomplished via the cooperation of several partners, due to the division of competences. That is the reason why the coordination of the individual partners' behaviour is of primary significance. The person or people in charge of managing the projects have to be versatile in terms of skills and competences; they need a certain degree of technological expertise to ensure control over the project, furthermore they need the skills to "liase" between the client and the contractor. Specifically, they should be able to "translate" the demands of the client into practical tasks to be implemented. In other words, they need to be able to integrate the diverging viewpoints and interests of the parties involved. Such skills are very difficult to formalize.

*"The internal project manager should be inter-disciplinary, because it is he who talks about design, texts, site-structures, navigation, usability and technology. He always has to feel the priorities and their changes, and he has to be able to manage them" (H. K., branch manager, P. Plc.)*

M. Ltd. contributed to the project with its technological expertise. In addition to professional competence, they had to manage the activities of the developers' team within the company. Web developments are the outcome of a cooperative activity; therefore, they primarily presuppose organizational skills, the skill to define a task and control its implementation. The cooperation among developers is based on relationships of trust. In the case of M. Ltd., their resources turned out to be insufficient for the completion of the task; therefore, there were some changes in the staff within the company, and in the last phase of the project P. Plc. "lent" a developer to M. Ltd. *"This was a prima donna type of firm with one excellent expert, the driving force, and three to four colleagues of lower professional standards. This is a viable set-up when minor tasks are to be solved. But in the case of a project of a scale such as the editorial portal of T. was, it didn't work. Today people working for a firm are mediocre or average in their fields, but they complement each other. This is a much more stable mode of operation."* (T.P., Managing Director, M. Ltd.)

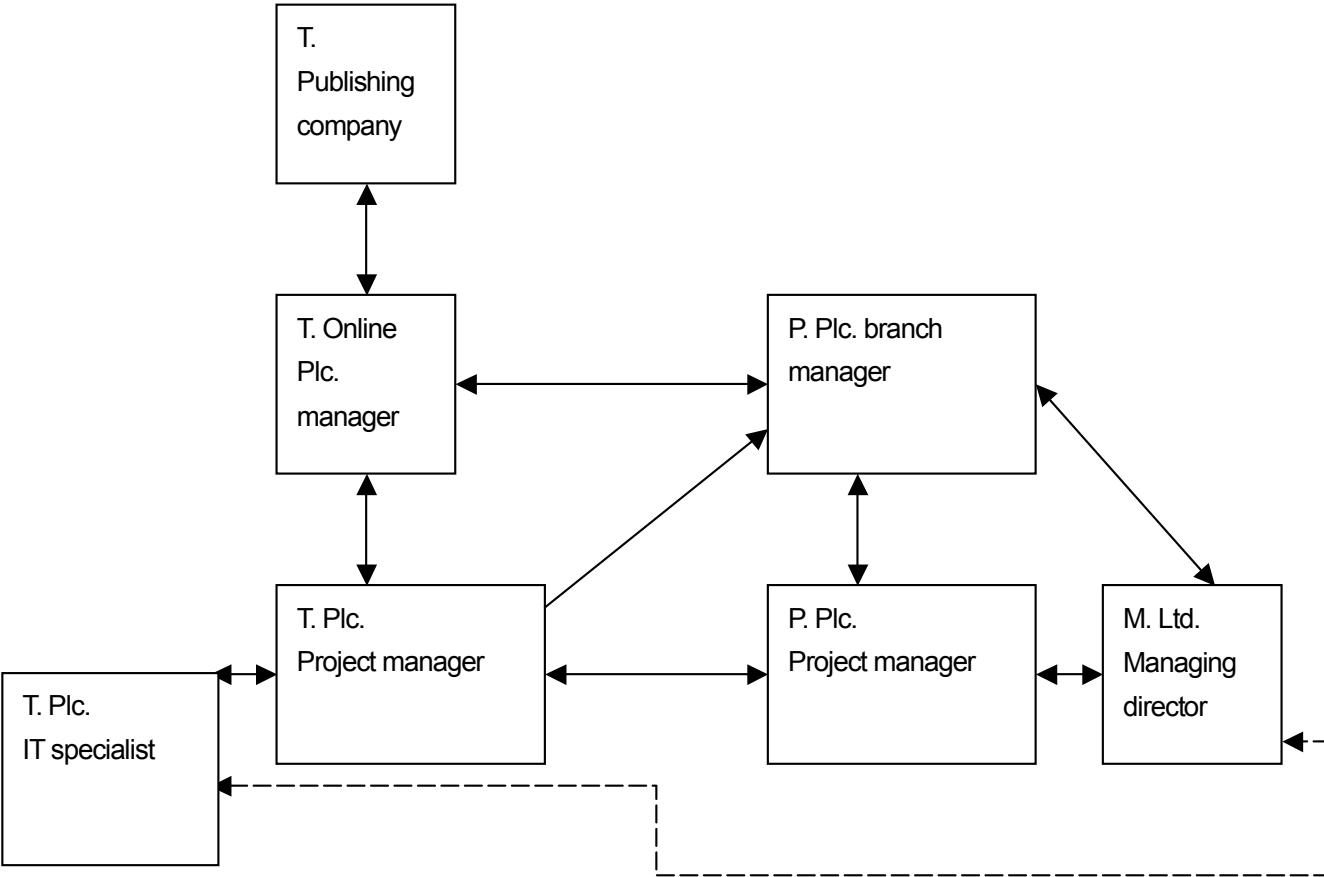
In new media projects, the role of the client is of outstanding importance, as it is mostly the client's service and/or content that has to be digitized. The Swedish example shows that in the interactive media sector, the client has a significant role to play both in coordination and in professional questions (Sandberg – Augustsson, 2002). No similar data are available for the Hungarian new media sector. Generally speaking, due to the difficulties in the planning of new media projects, which are of an innovative nature, the client has to be technologically up to a certain standard, and be able to integrate the project into its own organizational



processes, for example, to handle the potentially conflicting interests between the project and its internal processes, or to manage the need for additional resources. *“The suitable client is the precondition for managing a project, though obviously a lot depends on the translator as well. We couldn’t make T. understand that a new system is being born in the project, and therefore they need to be able to invest on an ongoing basis.” (H.K., branch manager, P. Plc.) “The client should by all means be technically sensitive, so that he can compress his ideas into a technical frame. There is always a tendency to be too ‘ambitious,’ people think they have a website, where this and that should be displayed, and they plan things that are mostly unnecessary and absolutely not feasible.” (I. G., advisor)*

**2.4 The building and maintenance of the network**

Cooperation among companies was developed within a formally structured hierarchical project organization. P. Plc., who maintained the direct contact with the client, was in charge of managing the project. The following figure illustrates the formal and informal relations among the parties:



The partners were in a contractual relationship. T. Online Plc. concluded a contract with P. Plc., and P. Plc. as the prime contractor signed a contract with M. Ltd. M. Ltd. did not know the contents of the prime contract between T. Online Plc. and P. Plc. When signing the contract, the parties also agreed upon the tasks to be implemented. K. Plc. and M. Ltd. worked out a joint action plan that included the deadlines of the different subtasks and the consultation nodes.

From the beginning, the communication between the participants was organized according to a complex pattern. The general manager of T. Online Plc., as the representative of the clients, was responsible for the final implementation of the project, and he communicated with the owner of the publishing house. The publishing house managed the budget; here the T. Online Plc. had no decision-making power. Two contact persons were assigned: a project manager and a technical contact person responsible for IT. They were responsible to the management of T. Online Plc., while on the task level they communicated with P. Plc.

The business unit manager was responsible for the project at P. Plc. A team consisting of two people, the project manager and an assistant, was set up to manage the project. Originally it was decided that the assigned project manager would be responsible for managing the whole project, keeping the deadlines, managing communication among the parties, and solving minor problems.

At M. Ltd., the managing director coordinated the work of the developers, and he was also responsible for project management.

According to the original plans, communication between the parties would have been mediated by P. Plc. Communication took place electronically and also personally. The latter was facilitated by the fact that the developers' team of M. Ltd. also used the physical infrastructure of P. Plc., i.e., they practically moved to the premises of P. Plc. during the project.

As it was planned originally, the communication was documented, memos were made about the meetings, and the project manager of P. Plc. had to deliver weekly status reports. However, during the implementation phase, the actors failed to maintain the originally designated frame of communication. An informal communication channel came into being between the Information Technology (IT) specialist of T. Plc. and the manager of M. Ltd. The primary aim was to manage the interim technological problems, but later P. Plc., which was formally responsible for the management of the whole project, completely lost control of the channel.

Contacts among the companies were developing according to the logic of hierarchical networks. At the same time, the relationships in this space of social connections were not solely determined by technical tasks, but also by the informal relations which developed on the basis of individual interests and joint values of the different parties.

## **2.5 Relations among the partners**

Cooperation among the parties was impeded by several factors right from the beginning. The parties participated in the cooperation with different business and individual interests and different obligations that could not be integrated during the project.

T. Online Plc. was a key account. Although it was not one of the biggest customers, the fact that it was an economic weekly with a high reputation meant that there was a strong desire to cooperate with them. Thus they had a strong interest representation power vis-à-vis the suppliers. We have already mentioned the significant role of the client within the framework of new media projects. During the cooperation, the problem emerged that they were not able to fully integrate development in their own processes. During the course of interactive media projects, it is a general problem that the IT of the client is not always interested in the implementation of the process.

*“It is typical that there is a part of the process at the end of which it is revealed that the IT of the client has not been finalized on time as there are no sanctions; the project manager is not the boss of the IT staff within the organization. Their sole interest is that they should not be accountable for the implementation of their own tasks. There is no project organization in the client organization, and in the end they just start saying:*

*'Look, you are not my boss.' (...) It was difficult to work together with their management. What they saw was that we are a small development company, not as big as they are used to. When we presented a non-traditional development plan, they said that it did not fit their security policy, which is of course something that can and should be changed. So what happened was that there was a new component put into their regulated IT system for which some extra work had to be invested, which of course was not paid for. There are a lot of expectations here for innovation as there are no developed technologies, and you cannot expect this innovation skill from the IT people of the client. It becomes a debate on the competencies, and there are no obvious truths in the world of IT.'* (K. H., branch manager; P. Plc.)

It was a technical obstacle in the cooperation that the organizational and internal hierarchical system of the client impeded the integration of the processes. It was a special problem that the project manager of the client who supervised the project did not have the necessary skills to manage the tasks.

*"I think the problem was in the coordination here; the external project manager was not given a full mandate, and the internal project managers are usually not adequately qualified in this field; they have common sense and they also receive some training, but they are not IT specialists and they are unable to fully understand the problem. The other important symptoms are inexperience and young age. Often an easily manageable issue ends up in a conflict as they simply transgress the limits of professionalism and become personal."* (K. H., branch manager; P. Plc.)

All this draws attention to the complex nature of the knowledge and competence necessary to manage interactive media projects. The necessary competence means in-depth knowledge of a specific activity, and thorough and comprehensive knowledge about the entire interactive media process, but social competence, network building and initiative abilities are also important. (Sandberg – Augustsson, 2002, 26.p.)

At this stage a complex problem emerges. In our second case study we have already indicated that professional skills related to interactive media become obsolete rapidly and it is difficult to obtain them in the framework of formal training. This is why on-the-job training is so highly important in the field of new media. It is even more necessary in the case of social knowledge and competence, which are difficult to formalise (e.g. organizational or network-building ability) and which can only be obtained through long work experience.

In the case of the analyzed project, these competence elements were also insufficient at P. Plc. The project manager did not have the necessary competence, and he could not integrate the different skills of the developers who were not hierarchically related to each other. Thus the role of the "broker," which is indispensable for the coordination of the cooperation, and through which the different skills and types of knowledge could have been decoded and integrated, was missing. It is partly due to this fact that there was no norm and sanction system set up which could have integrated the different interests.

*"I think that it was a technical mistake that they did not delegate a professional project manager to implement this very important task, but chose a beginner who was a sort of decorative project manager. They assigned a project manager to a key account who did not have the necessary technical skills and experience. He was not a project manager; but a kind of project status indicator. So he did not have the managerial role in the project as he lacked the necessary professional knowledge. He should have been able to manage his partners. They could not have an oversight, so they did not realize after the third or fourth delay that it should not be managed this way and there should be a general change in the cooperation. There have been so many changes during the project - the expectations, the platforms and lots of other things have changed; we went through a 180-degree technological change, but this general problem has not been mentioned by anyone any time."* (P.T. managing director; M. Ltd.)

M. Ltd. also undertook the assignment because of the key account. At the same time, they expected that through the development they would be able to finalize their editorial system, which was only semi-finished at the time of the project, and later use it as a reference. The cooperation was impeded by the fact that the resources were also not adequately integrated within M. Ltd. As a result of this, there were changes in the staff at mid-term which further slowed down the process. The M. Ltd. managing director realized the deficiencies of the project management, and the consequent structural hole in the cooperation. He made attempts to undertake managerial functions in line with his interests, but his position in the project structure and the lack of skills necessary to implement these tasks hindered his attempts.

*“After a while I managed the issues and often times I also undertook K.’s tasks as well, but I was not suitable for the role. I could not plan the schedule, but I treated the whole thing as a developer. A project manager should call the alarm at the second or third delay that the deadlines are not met, and he should take immediate actions.” (P.T., managing director, M. Ltd.)*

### **2.5.1 Trust**

To establish trust during the cooperation is a time consuming process, which is based on on-the-job learning and burdened by several conflicts. The success of this process depends on getting to know the professional and moral intentions of the participants. In our case, real trust-based relations could not have been established due to several reasons. The cooperating partners did not have common work experiences previously, and they could not set up a regulatory system that could have integrated the specific interests.

All this is the consequence of the complexity of the system; the operation of the network should have been integrated at least at two levels - the level of the particular organizations and the network. The integrator, P. Plc., should have had a key role in this process, but they failed to implement this task.

Trust is a procedure-regulating mechanism in which the long-term interests of the involved parties are important. Usually three elements of this mechanism are highlighted: professional expertise, moral competence, and behavior according to common norms. In our case, P. Plc. placed a strong preliminary trust in M. Ltd., which meant that there was no time to develop experience that would have enabled the participants to test and control the above elements. Without this, mechanisms regulating the cooperation should have been put in place that could have established common values and norms, i.e., which could have integrated the different interests of the parties. The long-term integration of interests failed partly due to the strong interest representation position of T. Online Plc., and partly due to the fact that there were no adequate cooperation mechanisms operating *within* the particular organizations of the participants.

The disintegrated relations and the lack of common norms and values reinforced the competing behavior and not the cooperation of the parties. All this practically led to the deterioration of trust-based relationships, overshadowing the long-term reciprocity that is the basis for them.

### **2.6 Relations with the community**

The operation of communities of practice – closed professional circles - is typical of the Hungarian new media sector. It is partly due to the geographical concentration of the sector (mainly in Budapest and in some major university towns), and partly to the similar age and socialization of the people working in this sector. (Employees in their twenties are the majority in the multimedia sector.)

The role of these informal communities of practice is dual: on the one hand they promote the exchange of professional and business information, and on the other hand, these relationships outside the workplace also

influence on-the-job behavior. The world of labor and the world of private life are not separated in this profession.

In this community, exchange of information beyond the boundaries of organizations is regarded as normal, which is basically due to the fact that relevant professional information is not available through formal training channels. However, sharing business information only occurs in closer micro-networks with stronger links.

*“Everybody knows everybody; informal relations are very important. Basically we discuss everything related to others in the market, and there are also some people – but their number is definite - with whom we also discuss personal things. In certain areas, for example among those working in the online advertising market, it is even more intensive; very young people work there and also at the sales departments of agencies and the media and regularly go to a pub together every week. You can get the most valuable information through this channel, if you only write letters and read the news; well then, I don’t really know how you can decode the message there into relevant information; in the end you get completely isolated. We get these newsletters full of information, and I don’t understand what they are about. You must see behind the scenes and then the whole thing is completely different.” (G. I., consultant)*

Strong links beyond the world of labor facilitate the provision of coded information, while at the same time they also restrict the players in representing their interests. *“The problem is that when there is a relationship between two people and then you approach the client with this: Look, you must understand that it will cost more, and then he says: OK, I understand but I cannot do anything, what can you do then? Stop the project? Then you also endanger his position. Or you try to make a deal but he says no. First you are great friends and then perhaps a completely irrational withdrawal. Distance does not mean that there is no trust, but in the case of distance, trust is based on professionalism.” (K. H., P. Plc. branch manager)*

The feeling of belonging together is strong among the players, while formal connections with the wider professional community are not typical. The informal connections of the sector cannot become institutionalized. The reason is basically the young age of those working in the sector and the lack of resources. In the past few years, there have been some initiatives to launch educational programs. There is a new foundation being established under the name of the New Media Center, but this center has not been created in order to represent and protect interests, but to install a quality assurance system to protect professional quality.

### **3. Summary**

In our case study we tried to draw attention to the problems related to the cooperation of small companies in the Hungarian new media market. The model of relationships presented in the study illustrates the fact that the enterprises surveyed do not operate in close social communities, while their economic behavior is influenced by social norms and values that are primarily established in communities of practice based on informal professional and human relationships.

Trust relationships determining the behavior of parties could not survive in the long run, because during the highly specialized division of tasks, the two-level integration could not be established at the level of the participating organizations and the whole cooperation. This integration would have been able to ensure the establishment of a solid system of norms and values that would have created a framework of sustainable relationships of trust.

#### **4. Notes**

- (1) New media or interactive media... refers to companies developing interactive products or services, integrating text, graphics, sound, vision and video (multimedia or multimodal) products. This incorporate both companies producing entire interactive media solutions, and those contributing parts of the production... The platform or information carrier is on-line (Internet, intranet), off-line (CD-ROM, DVD, information kiosk, etc.) or wireless, mobile Internet (WAP, GPRS, etc.). (Sandberg-Augustsson, 2002: 3).
- (2) XML is a W3C specification marketed in 1998. It is a descriptive program language whose aim is to overcome the deficiencies of HTML, which is considered to be the basic language of the web. The primary function is the establishment of multimedia documents, and links in and between them.

#### **Methodology**

In the case study, we presented the operation of the entrepreneurial network of two companies. During the research we did not follow the logic of representativity, because our aim was to fully explore the relationships between the particular participants and the influencing economic and social regulatory mechanisms. Thus, we collected qualitative data. We conducted five structured in-depth interviews with the participants of the project, the general managers of K. and M. Ltd., and one of the process consultants in Budapest. We could involve three participants in the research. Unfortunately, the management of the economic weekly that ordered the project decided not to allow his colleagues to participate in the research. We would like to express our thanks to the interviewees for their support during our work.