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Doing Business in Hungary

HELSINGIN KAUPPAKORKEAKOULU
HELSINKI SCHOOL OF ECONOMICS

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1 Introduction

The special program is an elective course at the Department of Organization and Management at the Helsinki School of Economics. The idea of the course is that students organize it from the very beginning by themselves, with agreement from the department. It is not prescribed how the course should be done. In 2006 there were arranged a study trip to Prague and from this previous work we got the idea to arrange a new study trip to another culture.

In fall 2008 we began to plan the trip. We were interested about business culture in Brazil but since the economical situation was not very good at that moment, it was too difficult to get financial wherewithal to arrange a trip to Brazil. However, this turn didn't depress us. Instead we voted Budapest to be our new destination.

We split ourselves to different teams to take care of different areas of the project. There were company, school, Finpro, travel and finance teams which all had an essential part of the arrangement of the trip itself.

Company team contacted Finnish companies which have operations both in Hungary and Finland and inquired for a possibility to visit both locations. The team got positive answers from Fiskars and BPS Consulting and we got a chance to study how originally Finnish companies run business in Hungary and how it differs from the way things are done in Finland.

The school team arranged a visit to Corvinus University of Budapest. Corvinus is one of the CEMS (Community of European Management School) schools, like Helsinki School of Economics as well. There we met local students and Ph. D. András Nemeslaki, who is the head of E-business Research Center.

One of the teams arranged a visit to Finpro. This association promotes export of Finnish companies all around the world. We met Tommi Pelkonen who works at Finpro in Budapest. He was really helpful and arranged also some other meetings with Finns who have been doing business in Hungary for years. Because of Tommi's helpfulness we met Mertsu Lindfors who has run a travel business in Hungary for around twenty years. We also met Risto Junttila, managing director of Finnrelax, a company that constructs and sells saunas in Hungary.

The travel team booked the flights and accommodation for us all and planned the spare time activities in Budapest.

The finance team applied the financial wherewithal to realize the study trip. We got 25 percent of the travel expenses from KY (student's union of Helsinki School of Economics), 2000 € from Liikesivistysrahasto (Foundation of Economic Education) and also Helsingin kauppakorkeakoulun tukisäätiö (HSE Foundation) allocated 2000 € for us.

After thorough preparation and dozens, if not hundreds, of e-mails and numerous meetings we were ready to leave to Budapest in the beginning of April. The week turned out to be a huge success. All our visits fared well; hosts were interested in our project and guests from Finland. We met interesting people and learned much about Hungarian business culture. Our week in Budapest was planned well and besides the visits we also had time to familiarize ourselves with the sights of Budapest.

Although the trip was a highlight of the course, the course didn't end to that. In this report we will tell about our findings. The report consists of five different parts. First we describe special features of Hungarian economy based on our visit at a local university and Finpro. In the second part there is a description of Hungarian leadership styles compared to Finnish ones. After that we describe companies that we visited from an organizational point of view. We aim to give some suggestions how operation could be improved from our point of view. However, we would like to emphasize that these are only our opinions. Next we discuss about the effects of global financial crisis on Hungarian economy. Finally there is a summary of the main points of this report.

We would like to thank our student's union, Foundation of Economic Education and HSE Foundation for making our study trip possible. In addition we like to thank the Department of Organization and Management for enabling this course. We also want to thank Fiskars and especially Réne Österman and Péter Kovács for an opportunity to familiarize ourselves with Fiskars and its operations. Our compliments also belong to BPS Consulting and its CEO Marjariitta Wakkola and Balázs Kovács for telling us about world of SAP and running business in Hungary. Warm thanks to Tommi Pelkonen at Finpro and Riitta Swan at Finnish Embassy for telling us about Hungarian economy. Special thanks to Mertsu Lindfors and Risto Junttila who told us how it is like to run a business in Hungary as a Finn. We want to thank András Nemeslaki from Corvinus University for telling us about the university and economic situation in Hungary and the local CEMS students for giving us student's viewpoint and inviting us to a CEMS party.

2 The Embassy of Finland and Finpro

In this chapter we will introduce the Embassy of Finland and Finpro and summarize what we learned from their presentations and discussions with them. Finpro's Business Consultant, HSE alumnus and former KY active, Tommi Pelkonen was extremely helpful and provided us with plenty of useful links and contacts. After arranging a meeting with Finpro we also requested for a visit to the Finnish Embassy as they are conveniently located in the same premises. At the Embassy we had the pleasure of having a very interesting presentation regarding Hungary and its current political and economical situation by Minister Counselor Riitta Swan with assistance from Program Assistant Jaakko Sievers.



2.1 Embassy of Finland

Finland has representation in over 100 countries around the world. The Finnish Embassy in Hungary is located on the Gellert Hill on the Buda side of the city, only a couple of kilometers from the city center. Diplomatic relations between Finland and Hungary were established in 1920 but for the first ten years the relations were handled from Copenhagen. Diplomatic and consular relations with Hungary were discontinued in 1944 due to armistice agreement but they were re-established five years later. The Finnish Ambassador in Budapest is Jari Vilén since 2007. The Embassy has personnel of 17 persons and five of them are sent from Finland and the rest are hired locally.



One of the functions of Embassy is to follow different areas of Hungary's politics and to keep Finland posted on what is happening in the country. Main areas of interest are domestic and foreign policy, security, defense, education and environment. The Embassy monitors which areas are relevant to Finland's decision making and tries to find out which topics could be promoted together in the European Union.

The publicity of Embassy is primarily handled via website, personal information letters and brochures. There is also a library at the Embassy with Finnish books, newspapers and magazines. The Embassy also arranges some cultural events in co-operation with Finnagora, the Center of Finnish Culture, Science and Business.

The consular department offers assistance to Finnish citizens, both tourists and citizens living in Hungary. Finns can handle passport applications at the consular department; get help in a state of emergency and vote in election among other things. At the moment there are around 400 Finnish citizens permanently living in Hungary and some 150 students in addition to that.

2.2 Finpro

Finpro is a global expert network founded in 1919 by Finnish companies. Their mission is to help Finnish companies to succeed abroad by promoting the growth and competitiveness of Finnish companies through internationalization. Finpro specializes in the key Finnish industries and they offer services for all phases and areas of the process: initiating, expanding, and strengthening of the business.

Finpro has 52 Trade Centers abroad and 8 offices in Finland. There are around 100 employees working in Finland and around 250 people working abroad. There is at least one Finn working in every office but for example market analyses are done by locals.

2.2.1 Bilateral relationships between Finland and Hungary

Due to our cultural and linguistic relatedness bilateral relationships between Finland and Hungary are fairly substantial and there are over 50 friendship city pairs in our countries and at least 60 different kinds of friendship societies. There is also a friendship group between our parliaments.

Finland and Hungary are both relatively new members in the EU. Also, both of the countries are quite small and have a special interest in EU's politics towards our eastern neighbors. These similarities make it natural for us to co-operate closely in the European Union.

Finns have invested a billion euros to Hungary and there is a total of 170 Finnish or Finnish-based companies operating in Hungary employing over 20 000 persons in total. The largest

Finnish employers are Nokia, Nokia Siemens Networks and Elcoteq. Sanoma is one of the most valued employers and Hungarians see it as a company with a very good reputation, good management and modern organization culture. Scandinavian companies on the whole are seen as attractive employers opposed to German or American companies.

In Budapest there is a Hungarian Finnish Trade Guild that helps Finnish companies when establishing business in Hungary. They also organize events and help to create contacts and to network with Finnish and Hungarian companies and professionals. The Guild was established in 1992 and became a registered association in 2008. Most of the major Finnish companies are members of the Guild.

2.2.2 Doing business in the light of statistics

Corruption is a known issue in Hungary and the country is ranked 47th on Transparency International's 2008 Corruption Perceptions Index. Finland can be found on the 5th place. Corruption is still quite common in public sector, especially in European Union's projects. The invitation for tenders is seemingly open for everyone but it can be formulated in a way that only the desirable company can fulfill the requirements.

On Ease of Doing Business rank Hungary is on the 41st place (Finland 14.) but different areas vary quite drastically. Hungary does very well on Enforcing Contracts (12.), Starting a Business (27.) and Getting Credit (28.) but struggles with Paying Taxes (111.) and Protecting Investors (113.).

Budapest has been ranked one of the best locations for expatriation, right after Moscow, Warsaw, Prague, Bucharest and Istanbul. Budapest and Hungary are also attractive options for foreign direct investments. Hungary is a cost-efficient location and it has been able to gather significantly production and R&D investment capital.

2.2.3 Things to consider when planning entering Hungarian markets

Budapest is located in the heart of Europe and has good logistics to the seven neighboring countries. Companies usually enter the area by starting their operations in one country and due to its central location Hungary has often advantage over other countries.

Hungarians have a very positive attitude towards Finnish people and they are interested in our Finno-Ugric relatedness. Even though we are treated with warmth we must remember that the business culture differs from our own and we have to adapt ourselves to their culture.

Competition is very tough in Hungary, particularly in retail business, foodstuffs and clothing. All the international chains are present at the market and it would be extremely difficult for a company to enter the market unless they have something special to offer compared to the competitors.

In this chapter we have discussed the Hungarian economy and politics. The next section deals with management style in Hungary compared to Finland.

2.2.4 Business culture

As per Target International Executive Search's study on Eastern European Management, Hungary is the most informal country in the area. Personal contacts and social relationships are very important in Hungary. Hungarians are creative but they do not easily present their own opinions or ideas. But when you get them to open up you can get most creative ideas from them. In Hungarian culture it is important to avoid mistakes and that leads to people being afraid to say or do things unprompted. Hungarians are also not very good at accepting criticism and they might easily get offended. Hungarians are rather self-indulgent and they lack entrepreneurial aspirations.

A study made by European Union shows that Hungarians are ranked second worst right after Great Britain on language skills for a second language. Generally the level of language skills is rather low and only educated elite and people working in international companies can speak English well. Hungarians have started to study English at schools as late as on the 90's and TV shows and movies are dubbed.

There are some challenges in Hungarian culture that have come up in the studies. Among these are poor customer service, bureaucracy, corruption and disorganization. Hungarians also have difficulties in committing to an organization. They hate the German management style with strict rules and the management ordering what to do. They also have challenges with building strategies; it is not always clear for them what to do and which direction to go to. Hungary is the least dynamic of the countries in the Eastern Europe.

Communication in Hungary is important and also taking customers out to dinner in a relaxed environment to discuss also other topics than business. Normally there is quite low hierarchy and employees can easily go and talk to their managers.

3 Management style in Hungary

3.1 Responsibility

One of the main themes to come up in almost all interviews, conversations and other sources was responsibility. More specifically, it was repeatedly mentioned that avoidance of responsibility is a real problem in Hungarian organizations. This was recognized at e.g. BPS and Finnrelax and was also a key finding of a study by Target Executive Search.

We were often told that Hungarians tend not to take initiative especially when it requires taking special responsibility. This can obviously cause problems especially in smaller companies, as things will simply not happen. Although appreciated as creative and intelligent, making decisions independently appears to be hard for Hungarians. We heard a number of anecdotes describing how, even when encouraged and empowered, nothing was actually done unless direct instructions how to operate were given.

It appears that the main reason for this avoidance of responsibility is the fear of failure and consequent punishment. This is still embedded in the culture as a remnant from the era of the iron curtain, when the strategy to stay out of sight was beneficial to employees. This was because errors were followed by punishments but good performance was hardly ever recognized. The fear of failure is further enhanced by poorly accepted negative feedback. An obvious way to avoid getting criticized for mistakes is avoiding them, even if it means avoiding responsibility.

Solving this problem is very difficult as the problem lies deep in the Hungarian business culture and a cultural shift always requires great strides and a long time horizon. In the short-term the problems caused by avoidance of responsibility can be handled by close supervision and detailed instructions what to do. Then again, this does not remove the actual essence of the problem and can in fact hinder the cultural shift as employees remain used to being told exactly what to do. It will require time and effort but by creating a supportive environment and creating

incentives for taking initiative there is a good chance to change this at least at an organizational level.

3.2 Feedback and communication

During our visits we got the idea, that giving negative feedback is not very common in Hungary. Supervisors feel uncomfortable to give negative feedback, which might be related to unwillingness to take responsibility. According to Tommi Pelkonen from Finpro, Hungarians are neither good at accepting criticism

Péter Kovács, managing director of Fiskars Hungary, told that he gives feedback, both positive and negative, right on the spot. At the end of the year he makes a summary of the year. He seems to think, that there should be an overall summary of the year, although he thinks it is important to give feedback immediately when work has been done well or there is something to develop. The summary usually doesn't include negative feedback, according to him.

Zsuzsanna Vizvári, controller of Fiskars, told that it is easy to ask for help and get feedback from supervisor. She said that every time she has a problem or question, she can go and ask Péter Kovács, who is her supervisor. Risto Junttila from Finnrelax told that employees are not willing to take responsibility, because they are afraid of criticism. He said that employees are creative in problem solving but after all there has to be a boss to tell what should be done. In our opinion Zsuzsanna's comment can be seen as an example of this Hungarian feature.

In Hungary, communication is not too formal (Bennett & Brewster 2009). We also noticed this on our visits. At the Fiskars, they arrange a meeting once a week. The meeting is the place where questions are placed on table and there is a good opportunity to give and get feedback. According to Péter Kovács and Zsuzsanna Vizvári, the office is so small that there are no questions which wouldn't affect everyone and that is the reason, why a common meeting is good. Despite having the weekly meetings Péter told that it is easier to just talk informally in the corridor.

He described relationships between employees warm and informal. He said that they are like a family at the office. Balázs Kovács from BPS Hungary told exactly the same. According to Bennett and Brewster, hierarchies are informal in Hungary and it is important to make friends with your colleagues.

According to research (Bennett & Brewster 2009) about business and management in Eastern and Central Europe, it is typical in Hungary to have informal relationships in the workplace. However, there are some things that Finns are more open with at work. Balázs Kovács from BPS told that it is not common in Hungary to tell about your own mistakes. In Finland people are nowadays encouraged to do that. We are trying to adopt an attitude, that everyone makes mistakes, and it is totally acceptable. However, at Fiskars we were told that “everyone makes mistakes”. Maybe this is a feature that has been shaped by organization culture.

All in all, it seems to be easy to share feedback, but it is easier to give and get positive than negative feedback. Communication is very informal in Hungary compared to Finland. However, we visited mostly at the small offices, and surely communication is different in bigger companies. For example, during our visit at Corinthia Grand Hotel, we were told that management and communication is extremely formal and hierarchical.

3.3 Openness

The third main theme to emerge from our study was openness, by which we mean the emphasis on the personal nature of business. This appears to be as relevant within the organization as it is when dealing with e.g. customers. Our interviewees at both BPS and Fiskars in Hungary were of the opinion that this is a very typical trait in Hungary. The same conclusion can also be found in the already mentioned Target Executive Search study.

In comparison to Finland, it is much more common to talk openly for example about money and personal finance in Hungary. Then again, negative things, such as illnesses, are less likely to be mentioned. This apparent openness coupled with the avoidance of the negative can also be connected to the theme of feedback, where open dialogue is appreciated yet giving negative feedback may be problematic. Also, the organizations we studied were very small and are thus even likelier to demonstrate an open atmosphere. However, based on the interviews and also the discussions at the British Chamber of Commerce event, we were convinced that this holds at least to an extent for larger organizations as well.

The personal approach to doing business was very much at the forefront at Fiskars, where personal relations with customers were given top priority. Overall, this was regarded as very typical for Hungary. The importance of personal relations with customers is further emphasized by the fact that although friendly and warm, Hungarians may show a somewhat sceptical attitude to whatever changes may occur in their environment, especially coming from abroad.

The openness and focus on personal relations should be regarded as an opportunity to create long-term partnerships, despite the challenges it may initially present. It may also help tackle the difficulties concerning the earlier mentioned negative feedback and responsibility issues.

This section dealt with special features of Hungarian management styles. In the next two chapters we discuss about the Finnish firms that we visited both in Finland and Hungary.

4 Fiskars

4.1 Fiskars in general

Fiskars is a global supplier of home ware and garden tools. As the formation of Fiskars dates back to 1649 it is Finland's oldest and one of the most valued companies. All Fiskars' products are known for high quality, functionality and design. The Groups' most valued brands are Fiskars, Iittala, Buster, Silva and Gerber. Associated Company, Wärtsilä Corporation, is also an important part of the Group.



Fiskars was listed in Helsinki stock exchange 1915 and since then has been a solid company for its shareholders. Year 2008 net sales reached 697 million as a process of ongoing growth. The operating profit was 70,9 – a bit lower than last year due to preparation for the current economical downturn. For now Fiskars' situation is quite good, but the future is uncertain.

Fiskars has a matrix organization, which is divided into operational segments and business areas. The operational segments are the Americas, EMEA (Europe, Middle East and Asia-Pacific), Wärtsilä and Other. The new target areas are Asian markets in China and India but above all to conquer the Russian borders.

The business areas of Home, Garden and Other including Real Estate are founded on creating maximal customer orientation and the independence of every business area. Fiskars wants to offer premium products for both customers and retailers who value these specialist brands and are willing to pay for them.

Fiskars vision is “To become the number-one specialist company in the Home, Garden, and Outdoor - through respected premium brands that lead the field in functionality, innovation, and

design". All the brands have the same mission: lasting everyday design, which dates back to the roots of Fiskars history.

There are 4119 people working for Fiskars in 21 countries. The personnel has divided so that the biggest part work in the EMEA (74%) and nearly 20% in USA. Most of the employees work either in the Home or Garden business area, only 12% in the outdoor and the rest in boats and real estate.

Now we are going to examine more in-depth the Finnish and Hungarian units, which are quite opposites as the Hungarian unit is a small and compact community of 10 people whereas Finland is Fiskars main distribution center with over 1000 employees.

4.2 The business and operations in Hungary

Fiskars' unit in Hungary Budapest is a small entity of 10 people and a warehouse of 200 square meters. It is just a selling unit distributing in Hungary whereto products are shipped from production units in Finland and all around Europe. It is situated a bit outside Budapest's center but in a comfortable reach with public transports.

The Hungarian unit was established 1994 by Péter Kovács who has been the director of the company ever since. The business started in Budapest area, and though concentrated in Budapest it has grown slowly and spread to the biggest cities in Hungary. Through the different retail chains small orders are sold all around Hungary, though the selection is very narrow in some of the shops.

The Hungarian unit has daily cooperation and contact with Finland, which is the distribution center. The upper management controls in case of shipments and orders, though otherwise Fiskars' strategy is to give authority for the local unit to take care of its operations. In this case Péter Kovács is the one responsible for taking care of the daily business with the help of his staff.

The turnover has been around 2,5 million euro and has been growing; especially the sales of garden products have grown 10-15 % annually. Due to the global economical downturn the sales have dropped this year. There's no need for layoffs, but the future is still uncertain.

4.2.1 Personnel

The office in Budapest has 10 employees. Two people are working in the warehouse, the warehouse supervisor and the warehouseman making and receiving the shipments. There's also an assistant at the door taking care of orders and paperwork using the IDEA-system as well as receiving some possible guests.

There are three sales people who all have their own product category from home to garden products. Two out of three are Key Account Managers dealing to the bigger, international retail chains, mostly French and German. One of the sales persons is concentrating on traditional Hungarian markets selling to the wholesalers dealing to their small customers. Earlier on this kind of selling has been typical, but due to the small turnover there has been a shift towards key account management. The sales people and their assistant have a room of their own, but because of the nature of their work they are often somewhere else marketing the products in fairs etc. Furthermore the unit has a controller and an invoicing person.

In addition to these 10 employees there are two merchandisers who work as subcontractors. They travel around Hungary checking that Fiskars' shelves are in order and organizing local promotion. There are 300-400 shops to visit every 2-3 weeks.

Most of the employees have worked for Fiskars a long time and there is a small but compact community where the atmosphere is pleasant and relaxed. The newest employee has worked in this unit for one year. As the people recruited are selected very carefully to fit the team, they have tended to get along well and the turnover of workers is very small.

4.2.2 Education

Péter Kovács takes care of the recruiting of the staff. Required educational background varies depending on the position, high school or college is the basic demands. As clearly more significant recruiting criteria for Péter is the personality of the applicant. There's a lot of teamwork in the small society and it's important to get along with people and to fit the team. Of course educational background as well as work experience has meaning.

Due to the size of the unit there are no clear career tracks or educational programs for the employees. The training is mainly concentrated in English and other language courses and managerial education when needed.

The style to manage is quite informal as in Hungary in general in companies of the same size. Hungarian people are not accustomed to ordering and commanding. Péter has the authority and leads the group, but can give responsibility to others also. In this kind of a small company informal culture can often lead to better results as employees are better motivated and working well together.

4.2.3 Motivation & free-time

As said earlier the atmosphere at Fiskars is open and relaxed. The team is dedicated and works together as a family. That is one of the most important means of keeping employees motivated for their work. The team supports every member and that's why it's easy to ask help if needed.

Every Friday is a casual meeting for the company to give feedback to their colleagues and discuss the ongoing projects and future plans. This is a very easy and informal way of keeping everything in order and everyone informed of what is happening.

There is also a bonus system for the whole company as well as a specific one for the sales people. Sales people get their bonuses partly according to the sales of their product category. There is also a common yearly sales target for the company, which can be added to the salary if it's reached. Peter has created the system, but goals are set from Finland. The goals are reachable, cause during the last five years these targets have been reached. This year is still a question mark though no big results are expected. Lunch benefits are also offered for all the employees but for example no exercise vouchers because they're not common in Hungary like in Finland.

Now and then there's a need for overwork, which is compensated apart from the sales people. They are very sales driven and are of course responsible for their own results.

Due to the relaxed feeling at the workplace and the fact that everyone knows each other it's common to meet outside the work occasionally. There are two bigger events per year, when the whole company travels somewhere in Hungary to spend the whole weekend together. There are recreational activities and building up the teamwork spirit. Also a Christmas party is arranged as well as casual evenings eating or bowling together. Due to the small size of the company it's quite simple to arrange.

4.3 Operations in Finland

4.3.1 Management

Operational management has changed last year from USA to Finland, which has had an influence on corporate culture. Nowadays when CEO is working near other employees in Finland, it's easier to arrange face-to-face meetings, which affects positively in corporate culture and atmosphere. Cooperation is not based only on e-mail meetings, but instead you can see your boss every day. In addition to that, the style to lead and manage is different between Finland and USA. In USA the governance is much harder and very effective. When the management worked in the USA, Fiskars in Finland was more like a brand factory.

Fiskars acquired Iittala 2007 and because of that one of today's challenges is that Iittala and Fiskars' governance and function are very different. People working in Iittala are used to make business and cooperation mostly in Nordic countries whereas Fiskars has been under a harder management from USA.

Fiskars has nowadays a strategy that they don't have to do any lay-offs; the number of employees is fixed and the readjustment to economic and seasonal fluctuation happens with a broad subcontractor network. This is a very good thing which provides added value to the company; Fiskars is seen as a sustainable company and a secure workplace.

Fiskars' selection of garden and home ware products is wide and it might be advisable to consider defining and reducing the assortment somehow. It could be a way of improving the business in the future.

4.3.2 Education

The educational background of Fiskars' employees is quite heterogeneous, which is seen as a positive thing. Commonly there are many engineers but different departments demand different kind of education, for example the R&D function needs especially employees with artistic education. When hiring new people one principle is valid; personality is stressed above all and the education doesn't matter so much.

Inside the company taking part to the extra education is seen as a positive thing. Many employees find their way to extra education by themselves and that's the way it should be;

everyone knows about the possibilities how to acquire oneself and ascend the career. It's also common that during the developmental discussions between the employee and his or her nearest manager the need for education comes up. As an expert organization it's seen as an impossible thing to tell employees about the possible educational requirements. Of course, if the job description changes essentially, it might be "compulsory" to take part in to some educational program. A good example of that is Key Account Managers -programs, where some young employees are educated in the USA.

Fiskars has also a non-structured journeyman-practice. The main idea is to familiarize an employee to a new task with the help of a retiring employee. This is seen as a good possibility if the employee expresses an interest and motivation towards this system. As a system, which isn't very expensive when comparing the many benefits of it, this could be worth additional development.

4.3.3 Free time

The employees in Finland don't tend to spend free time together. One reason for this, which came up was that normally workdays are long and the job is very challenging. After a long and challenging workday everyone wants just to go home. Despite that it might be a good idea to offer one workday or couple of working hours every now and then to the common recreation. With small investments work complacency and atmosphere could be even better.

In principle employees have a strong sense of responsibility and commitment to one's tasks. Employees work much overtime, and the number of overwork hours is not controlled or accounted which is not good in any case. Perhaps some mechanism to control that and reasonable compensation might be in order.

In our opinion very positive thing is that attention has been paid to the planning of vacations. It should be possible for the manager, too, to be really on holiday and not to read and answer e-mails. This planning and managing work is challenging, but in Fiskars staff seemed to be aware of that.

Absence rate due to illness is high, which is apparently common when doing fabric work. Musculoskeletal disorders (MSDs) at work are a big problem due to the challenging conditions. One solution to this is adding more rotation of work. However, this is not so simple because employees want to do their own, specific job which they are familiar with. Fiskars orders also

facilities to do sports and motivates its personnel to exercise with exercise vouchers, which is good to prevent those illnesses typical to mechanical work.

4.3.4 Future expansions

Fiskars has a matrix organizational structure, which in principle is seen as a positive thing. However, this means that an employee has usually more than one or two managers, which can cause some practical problems.

Fiskars has planned and actually already began to expand its business to Russia. Due to the matrix organizational structure it can be possible that one manager is responsible for many business areas, which might cause some confusion. For example Vice President EMEA, East René Österman, with whom we were discussing, has quite many functions and offices abroad to control; if some of them would be dropped off he could possibly concentrate more in the business in Russia and the expansion would be more effective.

5 BPS Consulting

BPS Consulting is a Finnish company working with SAP projects. The idea for this company began in 1994 when Marjariitta Wakkola worked in SAP Finland and wanted to establish her own company. The management of SAP Finland promised to Marjariitta that she could get the SAP license if she started her own enterprise. In spring 1998, Marjariitta and two junior consultants started this business and rented an office in Espoo. Nowadays there are seven full time employees in the office excluding Marjariitta, the chief executive officer. These office employees mainly work with the maintenance of customer companies and other office related work.

Marjariitta wanted to expand her business to Eastern Europe, and after some consideration, the options for the locations were Hungary and Poland. Hungary was chosen for several reasons before Marjariitta had even visited Poland. The reasons were mainly the lower level of corruption in Hungary than in Poland and the fact that Hungarians are originally related to Finland. Because of this, Hungarians have warm feelings towards Finnish people and they warmly welcome almost every Finnish person who wants to do business in Hungary. Thus

Hungarians are more willing to work with Finnish people than the Polish are. Other reasons were that there was also more SAP experience already in Hungary, and Marjariitta liked the culture a lot. The decision to expand to Hungary was also a little bit of a coincidence since Marjariitta networked and made contracts with Hungarian consultants before she had made the decision where to expand, and thus she practically had to go to Hungary.

The office in the capital of Hungary, Budapest, was founded in the year 2000. Today, there are only four Hungarians working for BPS Consulting. Marjariitta, who lives in Finland, is also the CEO of the Hungarian bureau. The team leader of the bureau in Hungary, Balázs Kovács, is running the daily procedures, for example dividing workload. The customers and job assignments come from the office in Finland. Marjariitta visits Hungary approximately every month to have a better touch of the projects and to supervise whether things are going to the right direction. During these visits, she also discusses with the employees about what has been done well and where things could have been done better.

Marjariitta has developed a salary system for the consultants. The system consists of seven different levels starting from L1 (assistant consultant) and ending to L7 (senior consultant). Every consultant working for BPS is allocated to some of these levels. Their salary is fully based on this level, and also the price that a customer pays for a certain consultant is based on the consultants' level. Marjariitta discusses with every consultant every year whether he / she will stay in the same level, drop to the previous level or perhaps go up to the next level. The level where a consultant is, in theory, represents the level of competence. Therefore the customer can easily choose what kind of consultants they want for their projects. Another good thing with this system is that the rookie consultants are more easily chosen for the projects, because they are cheaper, and therefore they get all the important experience.

5.1 Problems that BPS Consulting faces

BPS Consulting has faced a few challenges during its existence. Firstly, the competition is really hard in SAP business. This is simply because almost 80 % of all large companies have a SAP system in use. BPS Consulting is also a very small company, so it is hard for them to challenge bigger companies who offer SAP consulting. However, most of the customers that BPS Consulting has acquired have come to BPS when other, bigger consulting companies have somehow failed to do their jobs. Customers say that it is better to have a smaller, more flexible and reliable consulting company to work with. Because of this heavy competition, it is highly

important to try to maintain the existing customers. Thus Marjariitta has always emphasized long-term relationships with customers, and it has worked well so far.

Secondly, the rate of fluctuation of employees is really high in consulting business in Finland. When BPS consulting was founded, Marjariitta paid a lot to educate a couple of consultants. Unfortunately almost immediately after the expensive educations, the consultants left BPS Consulting. This resulted to the fact that Marjariitta has decided not to really educate employees anymore. Instead, she demands the consultants to educate themselves at least ten days a year. The fluctuation in BPS Consulting sometimes occurs also when a deal with a customer is still going on. Consultants, especially if they are senior consultants, just decide to leave and there is not much that can be done about it. As a solution for this, Marjariitta has always a backup plan since she thinks that it is highly possible that they might leave. Marjariitta also personally knows almost 300 senior consultants, so it is relatively easy to hire a new, experienced consultant to continue to work with the customer. Luckily this problem is not that notable in Hungary. In Hungary, consultants work more like entrepreneurs so they know that if they are unsuccessful, they will not be hired again.

Finally, people in Hungary are characterized not to be unprompted. Thus, they do not work initiatively and they need someone to tell them what to do over and over again. This takes a lot of someone's time, effort and is not cost-effective. They could spend their time doing what they are really supposed to do and thus this would erase gratuitous overlaps. Solutions for these problems are offered in the next paragraphs.

5.2 Could something be made differently?

The problem of fluctuation of employees is a challenge that needs to be solved somehow. When thinking of a solution, Marjariitta should answer to a few questions and also ask these from her employees: Why do they leave? Why the consultants are not committed enough to BPS Consulting? Do they like their employer or the workplace? Do they stress too much so they get tired too easily? Do they get too little compensation for their work? The answer could be found from some of these questions. In our opinion, the salary system is good and righteous so that is probably not the reason for the fluctuation. Perhaps Marjariitta should increase some other kinds of compensations for employees. These compensations could be such as lunch vouchers, exercise vouchers and free refreshment days for employees for example twice a year. If the

salary, other compensations and the atmosphere in the workplace are in a good and righteous level, the fluctuation would most likely drop.

Stress and burnout related matters are also one probable reason for fluctuation. It is known that the work of a consultant includes a lot of stress. Perhaps the answer to this could be bigger teams, more consultants, with one customer. If there are more consultants who divide the workload and stress, then of course they have more energy to work. Naturally there is the optimal amount of employees that is profitable for the company, but if one more consultant decreases the expenses coming from the fluctuation, then it actually could be profitable in the long run. Another solution could be for example free refreshment days for employees since they are an excellent way to reduce stress and to make the employees more committed to BPS Consulting.

Another thing that could be made differently with BPS Consulting is the fact that there is no “true” leader in Hungary. Marjariitta is the CEO who brings all the customers and gives all of the bigger orders to employees in Budapest. There is only a named team leader Balázs who divides the workload to other consultants and takes all the blame if something goes wrong. Balázs himself or the other three employees do not see Balázs as a senior to other workers. At least Balázs thinks that this is good solution. This is probably because apparently Hungarians do not want to take more responsibility than is necessary. But is it cost-effective that Marjariitta spends a lot of her time in giving orders to other people working in other country? Couldn’t she spend her time on doing what she is meant to do? Would it be more effective if there was a “real” leader in the Hungarian office who could make daily decisions and who does not have to call Marjariitta every time to verify the decisions or who does not have to wait the monthly visits of Marjariitta who then will make the decisions? If Marjariitta could find a real leader, preferably from Finland, to run BPS Hungary, then she could just visit Hungary once a month, or less, and focus more on running the office in Espoo and just watching over the office in Hungary. If the chosen manager to Hungary would be Finnish, then he / she would be accustomed to give orders and to take responsibility thus possibly making the Hungarian office more effective.

After all, BPS Consulting seems to run very well both in Finland and in Hungary. The turnover in BPS Consulting Finland is approximately two million Euros and has remained at the same level for a few years. Even in the time of the current financial crisis, Marjariitta keeps a positive mind and thinks that the turnover will not change too much. To ensure this stability, the problems that BPS Consulting is facing, should be solved in some way. Here we have stated

some suggestions which we think that are worth of trying. Next, we are going to discuss about the effects of financial crisis on the Hungarian economy.

6 The credit crunch and Hungary

6.1 Political and economic background in brief

6.1.1 The end of Communist era and the adoption of free-market economy

Year 1989 was the year of the liberation from communist grip when multi-party system and labor unions were permitted. It was also the year when Hungary adopted free-market economy as an opposite of the former government-regulated economy. All was set to rapid growth in the country.

But at first, Hungary's economy suffered from decline of exports to former Soviet countries and that led to reduction in GDP. The years of transition and pain caused by it ended roughly in 1996, and from there on Hungary's economy grew rapidly. It is said that the phase ended around year 2002 when the government decided to raise public wages by 50%. The increase in public spending sparked inflation, and foreign investments started to decline (source: Endre Spaller, Tommi Pelkonen).

Hungary joined NATO in 1999. As a NATO member Hungary should use 2 percent of its GDP to defense expenditures but the current level is approximately 1,1 percent. However, Hungary has been very active in peacekeeping and thereby has gained some acceptance for not fulfilling the requirements. Hungary has been participating in peacekeeping operations especially in Afghanistan and the Balkans. In 2007 Pápa Air Base in Western Hungary was selected to host NATO's C-17 transport aircrafts which was very good news also economically as the base is creating 300 to 400 jobs for Hungarian civilians.

In 2004, Hungary took another step in westernization when it became a member of European Union. EU membership is very important to Hungary and they are very proud of being considered to be truly European, not just some old Eastern Bloc country.

6.1.2 Overview of Hungary's political system

Hungary's political system is widely polarized. The socialist party, MSZP, is the successor of the communist party and has ruled for the last seven years. The other major party, conservative

Fidesz, holds roughly the same number of seats in the parliament as MSZP and is the strongest opposition force in Hungary's politics. Politics is very populist and parties' main concern is how to succeed in the next election. EU politics is one of the rare areas in which both parties have quite similar opinions.

Enjoying steady economic growth Hungary hasn't faced any major setbacks in its economy or in its political system. That's one reason why both major parties have been conducting extremely populist politics: promising and saying what people want to hear, and thinking solely next elections has led to a situation where the country has been unable to follow through with reasonable and necessary reforms such as cutting public spending and reducing huge pension burden. Recently the extreme right wing has gained popularity among Hungarians and radical right's somewhat violent demonstrations have highlighted the instability of the political system in Hungary.

On 14th of April 2009, the socialist party selected new Prime Minister, Gordon Bajnai, after his predecessor, Ferenc Gyurcsány, had announced his resignation in March. Mr. Gyurcsány stated that he didn't have the public confidence and was an obstacle in raising Hungary back to its feet from the economic crisis. Mr. Gyurcsány also resigned from the post of party chairman. Next parliament elections are to be held in 2010, a plan that's being opposed by Fidesz as it argues that new elections should have been held after Gyurcsány's resignation. At the moment the opposition party Fidesz has a massive lead of two-thirds in polls despite it has avoided talking about unavoidable cuts in public spending. Even so, people seem to accept such measures (source: politics.hu).

6.1.3 Hungary's economy today – effects of the credit crunch

Hungary's economy is unarguably in a deep crisis at the moment. Its GDP is falling, its banks have serious issues with assets and liquidity (offering some 10-15% interest on deposits) and also unemployment is increasing. Hungary has taken a loan of 20 billion dollars from IMF, EU and World Bank to stabilize its economy. The goal of adopting euro seems to be far away and Slovakia's move to join the Euro zone in January 2009 was a sharp reminder of the effects of reforms in an economy.

Hungary wants to join euro and they have been trying to fulfill the strict criteria with a lot of efforts. In 2007, there were discussions that Hungary might be able to reach the criteria in 2009.

Nowadays, however, the estimate is year 2014. Hungary is in deep problems with the fluctuating currency and former Prime Minister Ferenc Gyurcsány had suggested that Hungary should join the euro to get the economy back on feet again. The same had also been advised in IMF's internal report as a remedy to save the struggling countries in the area.

Hungary's economy has been on a roller coaster ride and the same still continues. In the beginning of the 20th century, Hungary was economically on the same level with for example Italy and Austria, and it was an important meat producer and a rather wealthy country. Wars and unsuccessful political choices led to economy's severe dropping and Hungary is still far from the countries with which it was on the same level a hundred years ago. However, during the communist era Hungary was the most advanced of the Eastern Bloc countries and had some liberties that other countries did not get.

One of the biggest causes for the crisis has been loans in foreign currency. Majority of households have foreign currency loans in Swiss franc or euro and the value of Hungarian forint might have decreased 30-40 percent after taking the loan. This causes severe problems with payments for households. Since the crisis started from the US, Hungary's forint has plummeted against foreign currencies causing major problems for companies and people with loans in foreign currencies. Despite that Hungary's exports have declined causing even more damage to the fragile economy. Country's public spending has lead to large budget deficit and that has put pressures on the economy, too. The exchange rate of Hungarian forint has been weaker than ever and production is heavily decreasing while indebtedness is rising. Hungary's GNP is reducing and as per some estimation previous level can be regained earliest in 2010.

Hungary will now go through some major reforms under strict control of IMF, EU and World Bank. This might be a blissful opportunity for the country: it might be able to do the necessary, but painful reforms in its political and economic systems. These changes were impossible previously, but now a foreign and outside authority such as IMF might act as a scapegoat for these changes.

And something is happening already. The parliament has voted for cutting pensions (eliminating the so-called 13th-month extra pension) and rising gradually the retirement age from 62 to 65. This effort to cut public spending was a precondition for accepting the post of Prime Minister by Gordon Bajnai.

6.2 Different perspectives to the situation

6.2.1 Finpro

Finpro, a sort of a consultancy company that's specialized in helping Finnish export companies abroad sees Hungary's situation quite harshly. Finpro's consultant Tommi Pelkonen gave us a dynamic presentation about the economy of Hungary and the business life overall.

Mr. Pelkonen highlighted the bad politics made in Hungary that has lead to a situation where only short term political gains mattered. As we had already heard, Hungary's inability to undergo some necessary structural changes meant that when global economy declined sharply the country was on its knees. Hungary's competitiveness against its neighboring counties weakened, too.

Loans in foreign currencies are the biggest single problem at the moment and there are major problems in paying them back. The foreign loan burden has increased dramatically since Hungary's HUF has declined substantially against euro and other major currencies. Mr. Pelkonen pointed out that Hungary's exports are declining constantly, even though the country's export sector should benefit from the declining HUF.

The emergency loan Hungary received can be seen as a positive thing, too. It would be absolutely necessary to undergo these structural changes and now there might be an opportunity to do it since the country is under strict foreign surveillance and even political pressure. But there are still major threats as the ever growing loan burden and the still unbelievably instable political system that's blocking the reforms.

6.2.2 BPS Consulting

A Finnish SAP consultancy company has an office in Budapest, and we were able to compare the views about the financial crisis from the headquarters and the Budapest office.

Hungary's recession was viewed grimly from the Finnish perspective; the country is bankrupt, declared the CEO, Marjariitta Wakkola. Nevertheless, Hungary's position in BPS Group hasn't deteriorated, because the headquarters is benefiting from the weak HUF. This factor was pointed out to us by team leader Balázs Kovács. It will be more beneficial to "nearshore" (a term preferred by Ms. Wakkola) activities and programming to Hungary when euro is getting stronger.

Broadly speaking, headquarters had registered a clear cut in SAP investments and delays in paying the invoices especially in Finland, but a Finnish sauna entrepreneur in Hungary, Risto Junttila, had noticed a similar delay. Major customers are demanding some 30% price drops and BPS is forced to comply with that. Both Ms. Wakkola and Mr. Kovács seemed to share the common optimism about the future: these times are rough and will be even tougher as Ms. Wakkola expects the year 2010 to be even worse. However, BPS has competitive pricing and its strategy to concentrate on the maintenance side, too, will now prove to be a right one. BPS is a relatively small company and it definitely is an advantage at times like these.

Mr. Kovács believes that this economic downturn will terminate some weak competitors and thus enhance BPS Hungary's future competitiveness. But the only certainty at BPS was the uncertainty: this turbulence shakes the business and the outcome of all this is unclear.

7 Summary

During our stay in Budapest we got a good idea of what doing business in Hungary means. The competition is rough on Hungarian market and global financial crisis has hit Hungary powerfully, which brings even more challenges. In addition to our interests in economical and management field we learned a lot of Hungarian political situation and we also saw two wide political demonstrations.

It is important to make friends in business, because interpersonal relationships are almost crucial in Hungarian business culture. Local managers are not too good with foreign employees, because language skills are not always very good and they are not used to work with different kind of management styles.

We found some explicit differences in organizational culture between Finland and Hungary. In Hungary employees feel like a family at the workplace, or at least in the small offices where we visited. Employees also spend more free time together in Hungary than in Finland. We could say that workplaces are more communal places in Hungary. Communication is informal, but giving negative feedback is not very common. Hungarians are not willing to take responsibility which apparently originates from the time of iron curtain. There also have to be clear instructions to employees what to do because they are not very unprompted to find work to do at the workplace. Hungarians don't want to spend too much time at work and they are not ready to work hard to achieve something, in other words they appreciate free time perhaps more than Finns.

All in all, the study trip was an excellent experience and besides Hungarian business culture we learned a lot of project work. Once more, we want to thank everyone who has enabled us to make this study trip to Budapest. This has been a great experience!

