

1995

Entrepreneurship in a Transition Economy: An Examination of Venture Creation in Hungary

M. A. Lyles

L. S. Baird

J. Burdeane Orris

Butler University, orris@butler.edu

Follow this and additional works at: http://digitalcommons.butler.edu/cob_papers

 Part of the [Entrepreneurial and Small Business Operations Commons](#), and the [Management Sciences and Quantitative Methods Commons](#)

Recommended Citation

Lyles, M. A.; Baird, L. S.; and Orris, J. Burdeane, "Entrepreneurship in a Transition Economy: An Examination of Venture Creation in Hungary" (1995). *Scholarship and Professional Work - Business*. 24.

http://digitalcommons.butler.edu/cob_papers/24

This Article is brought to you for free and open access by the Lacy School of Business at Digital Commons @ Butler University. It has been accepted for inclusion in Scholarship and Professional Work - Business by an authorized administrator of Digital Commons @ Butler University. For more information, please contact omacisaa@butler.edu.

Entrepreneurship in a Transition Economy: An Examination of Venture Creation in Hungary

MARJORIE A LYLES

INGA S BAIRD

J. B. ORRIS

Abstract

This study examines entrepreneurs and new ventures in a transition economy, Hungary, and identifies what variables distinguish between Hungarian entrepreneurs and their new ventures in the pre-1988 transition period from that which followed. The variables that discriminate most strongly are their business strategies. The newer firms had a concentration strategy while the older firms had a new product development strategy. Other variables that discriminated between the groups include reacting to the political environment, satisfaction with firm performance, encouragement from investors, recent investment in building improvement, and family history of entrepreneurship. The newer entrepreneurs had more family role models of entrepreneurship.

Introduction

Transition economies, such as Hungary, are evolving away from centrally planned economies that emphasized heavy industries and neglected other industries, services and infrastructures (Marer, 1993). Transition experts view entrepreneurship and new venture creation as vital to creating and sustaining a healthy market economy because entrepreneurship generates new jobs, needed products/services, exports, and economic growth (Hisrich & Szirmai, 1993).

The purpose of this paper is to examine entrepreneurs and new business creation in a transition economy - Hungary in the 1980s. The question of what distinguishes Hungarian entrepreneurs and their new ventures during different phases of transition is examined using two time periods - before and after the 1988 Corporate Law. The paper extends entrepreneurship theory by providing insight into factors affecting new venture creation during economic transformations.

The Hungarian Environment

After World War II, Hungarian enterprises with more than 100 employees were nationalized (Kovacs & Meszaros, 1990; Hisrich, 1992). However, in 1968, planning was decentralized from the state to the enterprise level to increase the flexibility and efficiency of the economic system. The resulting mix of market and planned economies encouraged some growth in efficiency and output. The need to inject further entrepreneurial spirit into state-owned enterprises led policy makers to legalise certain private and quasi-private business forms (Hisrich & Szirmai, 1993; Naor & Bod, 1986; Bod, 1990). Licensed artisans could form private firms. Businesswork partnerships, mostly for professional services, and enterprise-work partnerships, primarily for after hours work by enterprise employees, were permitted (Tardos, 1983).

Between 1982 and 1987, enterprise-work partnerships rose from 2,775 units employing 29,300 people to 19,169 units with 252,100 participants. Similarly, business-work partnerships increased from 2,341 in 1982 to 11,164 employing 74,500 people in 1987. In 1982, there were 121,400 artisans and 11,300 shopkeepers. These numbers rose in 1987 to 1,154,600 artisans and 31,800 shopkeepers (Bod, 1990). The business environment changed significantly in 1988 when the Hungarian Parliament passed the 1988 Corporate Law (Kovacs and Meszaros, 1990). Hungary opened a stock exchange on January 1, 1989

that facilitated domestic and foreign private ownership. The political and economic reform begun in Hungary in 1988 and subsequently by the Soviet withdrawal in 1989 stimulated the development of the banking and commercial infrastructure and services critical to capital formation and the market. Hisrich and Szirmai (1993: 69) report that until 1988 "the political leadership prohibited the dissemination of accurate information about the private entrepreneurial sector."

Business people quickly took advantage of the enhanced legal and economic climate for private business. In the first six months of 1989, 150 companies transformed themselves into stock companies. It is estimated that small and medium firms may account for up to 25 % of Hungary's GDP (Kallay, 1991). Estimates including the "gray" or "informal" private sector suggest that the impact may be as high as 50 % (Arvay, 1992). Szegedi (1989) reports that over 75% of Hungarian households have been involved in private enterprises in some fashion over the last 40 years. However, the new enterprises have to overcome tremendous difficulties. Many operate with a minimum of employees, heavy tax burdens, and very little capital. The founders have to overcome economic, political, and infrastructure barriers to achieve success.

Thus, there exist in Hungary private and quasi-private firms entrepreneurship barriers that were created during two significantly different periods. The environment of 1987 and before allowed only very small-scale private venture creation. Approximately 10 % of the workforce worked, mostly part-time, in these enterprises to supplement their incomes (Szegedi, 1989). Those ventures created after the liberalization of 1988 enjoyed increased opportunities for the investment of capital in much larger ventures, but were still hampered by several obstacles. They also allowed individual investors the opportunity for ownership.

The research question of this study concerns those characteristics and strategies that differentiate the firms and entrepreneurs during these two periods. Addressing this question should provide practical and theoretical insight into the factors affecting entrepreneurship and new venture creation in a transition economy.

Theoretical Framework

Gardner (1985) suggests examining four dimensions of new venture creation - characteristics of the individual(s) who start the venture, the organizations which they create, the environment surrounding the new venture, and the processes by which the new venture is started. Since process data on start-up of Hungarian firms were unavailable, the model of new venture creation serving as the basis of this study includes only three dimensions - the environment surrounding the venture, personal characteristics of the entrepreneur, and the strategic orientation of the business. In the next sections, literature dealing with how these classes of characteristics may be associated with differences among Hungarian ventures will be identified and discussed and hypotheses will be developed.

Environmental Characteristics

It is important to look at new venture creation within its environmental context (McGrath & MacMillan, 1992). Environmental variables include cultural support for entrepreneurship (Peterson, 1988); access to labor, capital, facilities, transportation, services, suppliers and customers (Bruno & Tyebjee, 1982); societal, legal, political, and economic structures (Dubini, 1988); and turbulence (Morris & Lewis, 1992).

In studies of Hungarian start-ups, the beneficial effects of legal and economic reform (Kovacs & Meszaros, 1990) and the social, governmental and economic crises that affected new venture creation (Laky, 1989) have been stressed. These studies point to the increasing number of newly created ventures due to the changing environmental context.

However, all environmental characteristics have not worked to support venture creation even after 1988. In 1990, Hungary could still be described as a "sparse" entrepreneurial environment (Dubini, 1988), one where there was a lack of entrepreneurial culture, innovative industries and supportive infrastructure. Also, distrust of the extravagant lifestyles of some entrepreneurs and owner insecurity brought about by the changing tax laws and the turbulence in the economic and political systems have reduced business start-ups (Bod, 1990).

Differences in the entrepreneurial environments constitute the classification variable of interest in this study by utilizing a 1988 cut-off date. It is proposed that owner characteristics, start-up motivations and satisfaction as well as firm characteristics and strategies will differ with the characteristics of the two time periods. Differing Hungarian environments before and after 1988 will be associated with formation of different types of businesses by different types of entrepreneurs. Therefore, environment will be controlled statistically through a simple classification variable - date of founding.

Personal Characteristics

Age, education, parental background, and work experience have been shown to differ between small business creators and managers (Cooper & Dunkelberg, 1981; Shapero & Sokol, 1982; Brockhaus & Nord, 1979). Psychological characteristics such as motivation and decision style are also associated with different types of entrepreneurs (Kaish & Gilad, 1991; Johnson, 1990). Although these studies differ on how they define an entrepreneur and the validity of the instruments used to measure the characteristics, they do provide evidence that personal characteristics affect venture creation. In studies of Hungarian small business owners, age, family background, intellectual capital (including education and varied work experience), and financial situation have been found to be associated with different types of entrepreneurs (Vajda & Kuczi, 1991; Szelenyi, 1988).

It is proposed that individuals who started their firms before 1988 will differ from 1988-90 individuals by having more pre-World War II family background and role models of entrepreneurs. It is likely that the later group's motivation for start-up will be more opportunity-driven than role model-driven. The increased opportunities, support and resource availability of the 1988 and later period may have stimulated and enabled entrepreneurs to form new businesses in Hungary. We would expect the later period entrepreneurs to be motivated more by encouragement by investor and/or customer groups and less by a family history of entrepreneurship. This will be associated with owning a lower percentage of the business because of the greater availability of venture capital partners as compared to previous periods. These lead to the following hypotheses:

H1: Family history of entrepreneurship will be significantly greater among pre-1988 entrepreneurs than among entrepreneurial firms founded in 1988 or thereafter.

H2: Influence of political situation, economic situation, investor and customer encouragement on the start-up decision will be significantly lower in pre-1988 entrepreneurial firms than among entrepreneurial firms founded in 1988 or thereafter.

Firm Characteristics and Strategic Orientation

Entrepreneurship theory suggests that the impact of the type of firm (Cooper & Dunkelberg, 1981), the partners (Timmons, Smollen & Dingee, 1977), and the strategy (McCann, 1991) differ among small firms. These findings should apply as well to beginning firms in transition economies. Firm strategic orientations in the time periods under study are expected to differ in predictable ways.

Before 1988, private businesses in Hungary were primarily artisans, partnerships and cooperatives that operated in an independent manner. This was a period of economic and political stability under communism in which private ownership was encouraged only to the extent that it supplemented the productivity of the state-owned companies. However, rapid political and economic change during 1988 and thereafter brought legal changes encouraging private ownership and creating limited liability corporations. Because of the increased encouragement for private capital formation, it is expected that the newer firms will involve more capital investment and have more shareholders than the earlier ones.

Strategic orientations of the two groups of firms are also expected to differ. The pre-1988 firms were more likely to sell their existing products and services to state-owned firms and involved little consideration of competitive advantage. These firms faced transformation issues and were interested in developing new products for new markets. The later entrants faced more attractive international opportunities and had more capital available for investment in growth in products and services for both domestic and foreign markets. The following hypothesis reflects this expectation:

H3: Pre-1988 firms will have significantly different competitive and investment strategic orientations from the later firms.

Performance

Cooper and Gascon (1992) document that studies have used a variety of performance measures such as returns, sales and employee growth, and absolute size. Growth and satisfaction are measures of performance relevant to evaluating Hungarian new ventures (Feaser, 1987; Ginn & Saxton, 1989; Woo & Willard, 1983). Cooper and Gascon (1992) also indicate that most quantitative performance data are unavailable for new ventures for an assortment of reasons. In Hungary, this is also true where the tax rate on small firms is extremely high and there is not a well developed auditing process. Managers of small Hungarian firms are not very open with information about the true performance of their firms. Furthermore Marer et, al. (1990) raise the dilemma of utilizing "profits" as a measure of performance in historically planned economies. They suggest that the basis for figuring profits may vary by enterprise. Consequently this study uses quantitative and subjective measures of performance. We predict that the difficulty of adjusting firm policies, procedures and strategies to the turbulent environment will result in lower satisfaction among owners of the older firms. Therefore, the following is hypothesized:

H4: Performance of the pre-1988 firms will be significantly lower than that of the later firms.

Methodology

Sample

The sample consists of members of the Hungarian National Association of Entrepreneurs (VOSZ) who attended a management seminar in Budapest in 1990. VOSZ, the largest Hungarian entrepreneurs organization, is devoted to improving the small business climate in the country. In 1984, it was set up as a sector of small ventures within the Hungarian Chamber of Commerce and in 1988, it became an independent organization representing the interests of small business. Members of VOSZ represent the owners of these small ventures. Little information exists about small venture owners who are not members of VOSZ since until 1988 the government prohibited information about the private sector (Hisrich & Szirmai, 1993).

The seminar was publicized and offered without charge to VOSZ membership. Of the 112 people who attended, 100 filled out survey instruments at the conference. The nonrespondents were people who

attended only part of the seminar. The average age of persons attending the conference was 42. About 71 % of them were married and had about 14 years of schooling. Most of their work experience was in large state-owned enterprises, cooperatives, or business work partnerships (GMK).

Data were excluded from those not already engaged in business. The respondents were primarily owners or presidents of small private businesses. Since the influence of the owner/manager is pervasive in small firms (Carter, 1990), only one subject per firm seemed appropriate.

After eliminating three cooperatives started before 1980, the remaining valid cases (n=65) were divided into two groups based on the year of founding. The first group included businesses started in or before 1987 (n=32). The second group included firms started in 1988 or thereafter (n=33). The older group was tested to determine whether age was a significant factor in the variables used in the analysis: age proved to be not significant.

Analysis of the data showed no significant differences between the two groups based on industry. About 38 % of the firms were manufacturing, 38 % were service firms, 4 % were retailers, 5 % were in wholesale, 9 % were in construction, and the rest were other types. The majority of the firms were in the computers, machinery, and construction industries. The majority of the older firms were partnerships, while two-thirds of the new firms were limited liability corporations (KFT). The firms ranged in size from no full time employees to 230. Only 8% of the firms had over 70 employees.

Because government statistics on newly formed private Hungarian businesses are very limited, it is impossible to say whether this sample exhibits any size or type bias when compared with the typical distribution within Hungary.

Survey Instrument

The survey was pretested by having three Hungarian experts and managers in the United States assess the questions and to improve content validity (DeVellis, 1991). The survey was translated by Hungarian graduate students studying in the United States. The questionnaire was subsequently retranslated in Hungary and any unclear statements were adjusted. It was checked again in Hungary by translators there, and retranslated into English. Using a Western-style data collection technique may have biased the results despite efforts to eliminate language barriers.

Variables

All variables are listed in Appendix I.

Environment

The classification variable representing the characteristics in the environment was date of founding.

Entrepreneur's Characteristics

Data on personal characteristics such as age and family entrepreneurial background were collected. Family history of entrepreneurship was coded from 1 to 3 where 1 is "always been entrepreneurs"; 2 is "sometimes been entrepreneurs," and 3 is "never been entrepreneurs." The extent to which environmental factors such as the chaos of political situation, chaos of economic situation, encouragement from investor, or encouragement from customer influenced the decision to start a business was also assessed. Each of these four factors were rated on a 5 point scale (Scale: 1 = completely unimportant to 5 = very important).

Firm Characteristics and Strategy

Data were obtained about the company including founding date, legal form, industry, firm size in employees, gross sales, percent of ownership by the entrepreneur, percentage of domestic and foreign sales to total sales, investment strategies and business strategies. The investment strategies and business strategies were measured based on a 5 point scale (See Appendix I).

Firm performance was assessed in several ways. First, data were collected on net income and growth in sales for the past year. Thirty-seven firms from the total sample provided data on net income for 1989 and of these, only nine were from the 1988 and after group. Second, perceptual measures were collected. These included the degree of satisfaction with overall performance and a rating of the firm's performance in various activities such as providing worker training, lowering unit costs, and increasing market share.

Data Analysis

Descriptive statistics were used to assess the characteristics of the full sample of entrepreneurs and new business start-ups. Then, the entrepreneurs who started firms prior to and including 1987 were compared with those entrepreneurs who started firms after 1988 by using t-tests and chi square. Pearson correlations, means and standard deviations appear in Table 1.

Variable	Means		Significance
	1987 & Before	1988 & After	
Chaos of Political Situation	3.3	2.7	0.01
Chaos of Economic Situation	3.9	3.7	0.30
Encouragement from Partner	2.9	3.0	0.39
Encouragement from Investor	2.1	2.7	0.06
Encouragement from Customer	2.6	2.7	0.47
Encouragement from Older Person	2.3	2.3	0.48
Laid off from work	1.6	1.8	0.21
Problems with Boss	2.7	3.0	0.26
Bored at work	3.3	3.1	0.32
Reaching middle age	2.4	2.2	0.23
Perceived number of new competitors in last 5 years	2.1	2.1	0.42
New products in industry in last 5 years	2.1	1.7	0.04

1 = completely unimportant

5 = completely important

Because the objective of this study was to differentiate the two groups of entrepreneurs and their new ventures according to environmental differences during two stages of transition to a market economy, discriminant analysis on the variables listed in Table 1 was utilized. Discriminant analysis is an appropriate statistical technique for classifying units into a priori defined groups (Morrison, 1969; Seber, 1984).

Environmental characteristics were captured in the classification variable, date of founding. Predictor variables entered into the discriminant function were personal characteristics (age, family entrepreneurs), factors affecting start-up (political situation, economic situation, investor encouragement, customer encouragement), satisfaction with performance, and firm characteristics (investment strategies, business strategies). A stepwise procedure was used because there was no theoretical basis for predicting which variables should enter first.

Complete data on all discriminating variables were available for 22 cases in the pre-1988 group and 20 cases in the later group. Thus, the discriminant analysis were run with all cases in which there were no missing data. A stepwise procedure was used. The remaining data was entered to test the discriminating power against the full sample. This procedure adjusts for the upward bias that might occur (McDougall, 1990).

Table 2
Variables Utilised in Discriminant Analysis

Personal Characteristics	Firm Characteristics
Age Family History of Entrepreneurship	Recent Investment in More Buildings Recent Investment in Equipment Recent Investment in Land Recent Investment in Building Improvement Concentration Strategy New Market Strategy Alliances Strategy
Factors Affecting Start-Up	
Political Situation Economic Situation Investor Encouragement Customer Encouragement	

Table 3
Description of Hungarian Entrepreneurs and their Firms Based on T-Test Results

Variable	Means	
	Pre 1988	1988 & After
Age in 1989	43.3	39.8**
Years of School Completed	16.5	16.4
Family Entrepreneurship	2.8	1.8**
Percentage of Ownership	42.4	32.6**
Number of Other Owners	6.0	12.6**
Percentage of Sales in Hungary	79.1	62.7**
Gross Sales in Thousands of Forints 1989	21431.0	21682.0
Net Income in Thousands of Forints 1989	2750.0	3033.0
Number of Employees 1989	19.3	20.2
Most Frequent Type of Business	Partnerships	Limited*** Liability Corp.

^a Chi Square used instead of t-test.

**p < .05

Results

Characteristics of Hungarian Small Business Owners

Table 3 shows that the pre-1988 group of entrepreneurs was older, had slightly higher positions in their firms and indicated that fewer of their families had been involved in earlier entrepreneurial activities. There were no differences in the years of schooling. Percent of firm ownership was lower for the entrepreneurs in firms founded in 1988 and after.

Characteristics of the New Businesses

The mean sales of both groups reported was 21 million forints and the average size of the firm was close to 20 employees. Table 3 shows no significant differences in the two groups in the size of firms either in terms of gross sales for 1989 or for number of employees. The 1988 + group had slightly more international sales. The strategies that were used most by both groups were extending current products in new Hungarian markets/customers by self; developing new products/services by self; and making agreements with foreign firms to develop, market, or produce the products/ services. The least important strategy was selling part of the ownership to other Hungarian firms.

Performance of the Firms

Objective as well as perceptual measures of firm performance were elicited. Mean net income reported was 2826 thousand forints with no significant difference between the groups.

Pearson correlations for Income after Taxes, perceptual measures of performance and strategies adopted indicate the following. For all firms reporting net income, net income is significantly negatively correlated with a concentration strategy of selling current products to present customers ($r=-.53$), with a market expansion strategy ($r=-.29$), and with a new product development strategy ($r=-.36$). All of these strategies were strategies that the firm intended to do alone rather than in an alliance. There was a positive correlation with the strategy of forming alliances with foreign partners but it was not significant. Correlation with the subjective rating of satisfaction with performance measure was significant ($r= .28$). The sales and net earnings variables were not used as discriminating variables because of the small number of firms in the 1988 + grouping reporting these measures.

Table 4 shows there were significant differences on satisfaction with the firm's performance in the following areas: lower unit costs, increasing market share, attracting young workers, and lowering overhead costs. The 1988+ group was more satisfied with the firm's performance than the older group.

Table 4
Results of T-Tests of Subjective Rating of Firm's Performance^a

Performance Measures	Means	
	Pre-1988	1988 & After
*Increase Business Volume	3.2	3.4
*Improve Worker Training	3.0	3.1
*Improve Management Skills	3.0	3.1
*Lower Unit Costs	2.5	3.1**
*Increase Market Share	3.0	3.6**
*Attract Young Workers	2.1	2.7**
*Increase Employee Productivity	3.1	3.0
*Lower Overhead Costs	2.4	2.9**
*Implement New Strategies	3.3	3.1
*Achieve Planned Goals	3.2	3.5

^aRating of following activities where: 1 = poor performance and 5 = excellent performance

n=65

**p < .05

Results of Discriminant Analysis

The mean values of the discriminant function for the two groups of entrepreneurs were significantly different ($F_{sig003, 8, 33}$). Eight variables entered the discriminant function. Table 5 shows the standardized discriminant function coefficients and indicates that the following variables were important for discriminating between the two groups: Two characteristics of the entrepreneur (age, family entrepreneurship), and two factors influencing start-up (political situation, investor encouragement), satisfaction with performance, and three of the investment and business strategies entered.

Table 6 shows the results of the one-way analysis of variance of the eight discriminating variables. Two variables showed significant differences between the group means.

The classification matrix is shown in Table 7 and indicates that approximately 78 % of the pre-1988 group and 73 % of the 1988 + group would be correctly classified by the discriminant functions. The overall percentage of cases correctly classified is 75.38 % which is above the percentage that would occur by chance. Therefore, the model appears to have explanatory power.

Table 5
Results of Discriminant Analysis

Canonical Discriminant Functions Evaluated at Group Means	
Group Variable	
Entrepreneurs: Up to 1987	.7955
Entrepreneurs: 1988 +	-.8750
Standardised Discriminant Function Coefficients	
Discriminating Variables	
Age	.56499
Family Entrepreneurs	.47119
Political Situation	.44753
Encouragement from Investors	-.32562
Satisfaction with Firm Performance	-.33841
Investment in Building Improvement	-.39783
Penetration Strategy	-.58679
New Product Development Strategy	-.68634

Table 6
Results of One-Way Analysis of Variance

Variable	1987 & Before	1988+	F
Age	43.95 (7.21)	38.65 (7.54)	5.16*
Family Entrepreneurship	2.8 (1.58)	1.9 (1.20)	4.10*
Political Chaos	3.2 (1.20)	2.65 (1.22)	2.06
Investor Encouragement	2.45 (1.50)	2.90 (1.41)	.95
Penetration Strategy	3.55	4.10 (1.43)	1.72 (1.21)
Product Development Strategy	4.75 (.55)	4.50 (.82)	1.26
Satisfaction with Performance	3.00 (1.21)	3.50 (1.15)	1.79
Investment in Building Improvement	.30 (0.47)	.45 (0.51)	.93

Number in parentheses are standard deviations.
n=65; *p < .05

Table 7
Results of Classification Matrix

Actual Group	No. Cases	Predicted Group Membership	
		1987 & Before	1988+
1987 & Before	32	25 78.1%	7 21.9%
1988+	33	9 27.3%	24 72.7%

*Percent of "grouped" cases correctly classified: 75.38%

Testing the Hypotheses

Hypothesis 1, that entrepreneurs prior to 1988 were significantly different from those of 1988 and after was supported. Age of the entrepreneur entered the analysis; however, when age of the firm is subtracted from the entrepreneur's age, the age for starting the business was found to be identical for both groups.

Family entrepreneurs was one of the variables that significantly discriminated between the groups. The direction of this was opposite the one expected. The 1988+ group mean was lower, indicating more entrepreneurs in their families. Chaos in the political situation was a more important factor motivating start up for the pre-1988 group than for the latter group, while investor encouragement was more important to the 1988+ group, thereby supporting Hypothesis 2.

Hypothesis 3 addressed the characteristics and strategic orientations of the firms. Chi square analyses indicated that 1988+ firms were significantly more likely to be limited liability corporations. Three of the investment and competitive strategy variables entered as discriminating variables. Thus Hypothesis 3 was supported.

Hypothesis 4 was supported because Satisfaction with Firm Performance entered as one of the discriminating variables. The 1988 + entrepreneurs rather than the pre-1988 group were more satisfied with firm performance. Results presented in Table 3 also indicate that the 1988+ group was in general more satisfied with the performance of their firms than was the earlier group.

Discussion

Description of Hungarian Entrepreneurs

In both groups, Hungarians who start small businesses tended to be middle-aged, well educated individuals who had built up intellectual capital through experience working in a number of organizations (Laky, 1991). However, family entrepreneurship background differed between the groups. Many of the newer entrepreneurs have had entrepreneurs in their family. During the 1980s many Hungarians had two or three jobs and many of these were in the "gray" economy. These provided a family background in small business operation. One question that might be raised is whether participation in this type of small business exposed the 1988 + group to the kind of entrepreneurial skills and experiences that would enable them to run growth businesses.

The pre-1988 group viewed the political situation as more important to their decision to form a new venture. At first glance, one might expect the 1988 + group to respond more to the changing of the political situation. However, there is evidence to suggest that the pre-1988 entrepreneurs saw new venture creation as a way of expressing their creativity and individuality within the Communist system (Newmann, 1990). This indicates that future research is needed on the networks of the Hungarian entrepreneurs. The removal of Communists from power may have hurt the older businesses whose networks primarily included these Communist officials. The newer businesses may have found it easier to make connections with foreign firms, new government officials, and foreign investors. Therefore, the 1988+ group may have more useful informal social networks for the current conditions than do the older firms.

Performance

The respondents were satisfied with the performance of their firms during 1989, particularly in achieving planned goals, implementing new strategies, and increasing business volume and market share. Overall, the 1988 + group was more satisfied and optimistic about their businesses than was the pre-1988 group. The pre-1988 group may be less satisfied because they recognized that they were facing restructuring and organizational renewal to adapt to the changing economic conditions. The 1988+ group's optimism may have been associated with the newness of their firms and having capital available for investment.

Differences Associated with Founding Date

The findings support the hypotheses that there were significant differences between the two groups. There emerges a slightly different pattern of new venture start up associated with each group. The pre-1988 respondents had a larger percentage of sales in the Hungarian market which may indicate their previous lack of access to foreign markets and skills for risk taking. These individuals and others like them may provide the best vehicles for creating new ventures in the future and be the most receptive to training and venture creation in transition economies.

References

Arvay, I. (1992). The impact of the "informal" private sector on the Hungary economy. Presentation at the Hungarian Blue Ribbon Commission Meeting, Budapest, Hungary, November.

Bod, P.A. (1990). Privatization by proxy: New forms of entrepreneurialship in Hungary. *Proceedings*, Conference on Political and Social Environment in Entrepreneurship, George Washington University, 1-8.

Brockhaus, R.H. and Nord, W.R. (1979). An exploration of factors affecting the entrepreneurial decision: Personal characteristics vs. environmental conditions. *Proceedings of the National Academy of Management: 364-368.*

Bruno, A. and Tyebjee, T. (1982). The environment of factors affecting the entrepreneurship. In C. Kent, D. Sexton & K. Vesper, eds., *Encyclopedia of Entrepreneurship*. Englewood Cliffs, NJ: Prentice-Hall, pp.288-307.

Carter, N.M. (1990). Small firm adaptation: Responses of physicians' organizations to regulatory and competitive uncertainty. *Academy of Management Journal* 33 (2): 307-333.

Cooper, A.C. (1979). Strategic management: New ventures and small business. In D.E. Schendel & C.W. Hofer, eds., *Strategic Management*. Boston: Little, Brown, pp.316-327.

Cooper, A.C. and Dunkelberg, W.C. (1981). A new look at business entry: Experiences of 1,805 entrepreneurs. In K.H. Vesper, ed., *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College: 1-20.

Cooper, A.C. and Gascon, F.J.G. (1992). Entrepreneurs, processes of founding and new-firm performance. In D.L. Sexton & I.D. Kasarda, eds., *The State of the Art of Entrepreneurship*, Boston: PWS - Kent Publishing: 301-340.

Daily, C.A. (1971). *Entrepreneurial Management: Going All Out for Results*. New York: McGraw-Hill. DeVellis, R.F. (1991). *Scale Development: Theory and Application* 26. Newbury Park: Sage.

Dubini, P. (1988). The influence of motivations and environment on business start-ups: Some hints for public policies. *Journal of Business Venturing* 4: 11-26.

Feeser, H.R. (1987). Incubators, entrepreneurs, strategy and performance: A comparison of high and low growth high tech firms. Ph.D. diss., Purdue University.

Gartner, W.B. (1985). A conceptual framework for describing the phenomenon of new venture creation. *Academy of Management Review* 10 (4): 696-706.

Ginn, C.W. and Sexton, D. (1989). Growth: A vocational choice and psychological preference. In *Frontiers of Entrepreneurship Research*, eds. R. Brockhaus, N. Churchill, J. Katz, B. Kirchoff, K. Vesper, and W. Wetzal, Jr., 1-12. Wellesley, Mass.: Babson College.

Hisrich, R.D. (1992). Joint ventures: Research base and use in international markets. In D.L. Sexton & J.D. Kasarda, eds., *The State of the Art of Entrepreneurship*, Boston: PWS-Kent Publishing, 520-559.

Hisrich, R.D. and Szirmai, P. (1993). Developing a market-oriented economy: A Hungarian perspective. *Entrepreneurship and Regional Development* 5: 61-71.

Johnson, B.R. (1990). Toward a multidimensional model of entrepreneurship: The case of achievement motivation and the entrepreneur. *Entrepreneurship Theory and Practice* 14 (3): 39-54.

Kaish, S. and Gilad, B. (1991). Characteristics of opportunities search of entrepreneurs versus executives: Sources, interests, general alertness. *Journal of Business Venturing* 6 (1): 45-61.

Kallay, L. (1991). The Position of Small Business in the Hungarian Economy. Institute of Industrial Economics Working Paper, Budapest.

Kovacs, I. and Meszaros, T. (1990). Hungary's new corporate law: Entrepreneurship without limits. *Proceedings*, Conference on Political and Social Environment in Entrepreneurship, George Washington University, 43-50.

Laky, T. (1989). Vanishing myths--Wavering intentions (Small enterprises revisited). *Acta Oeconomica* 40 (3-4): 285-306.

Marer, P. (1990). Entrepreneurship and reform in Communist countries. *Proceedings*. Conference on Political and Social Environment in Entrepreneurship, George Washington University, 51-58.

Marer, P. (1993). Economic transformation in Central and Eastern Europe. In S. Islam and M. Mandelbaum, eds., *Making Markets: Economic Transformation in Eastern Europe and the Post-Soviet States*. Council on foreign relations Book: 53-98.

McCann, I. (1991). Patterns of growth, competitive technology, and financial strategies in young ventures. *Journal of Business Venturing* 6 (May): 189-208.

McGrath, R.G. and MacMillan, I.C. (1992). More like each other than anyone else? A cross cultural study of entrepreneurial perception. *Journal of Business Venturing* 7 (5): 419-429.

Miner, J.B. (1990). Entrepreneurs, high growth entrepreneurs, and managers: Contrasting and overlapping motivational patterns. *Journal of Business Venturing* 5 (4): 221-234.

- Morris, M. and Lewis, P. (1992). Entrepreneurship as a significant factor in societal quality of life. *Journal of Business Research* 23 (1): 21-36.
- Morrison, D. (1969). On the interpretation of discriminant analysis. *Journal of Marketing Research* 7: 156-163.
- Naor, I. and Bod, P. (1986). Socialist entrepreneurship in Hungary: Reconciling the 'Irreconcilables.' *Columbia Journal of World Business* 21 (2): 55-68.
- Peterson, R. (1988). Understanding and encouraging entrepreneurship internationally. *Journal of Small Business Management* 26 (April): 1-7.
- Seber, G.A. (1984). *Multivariate Observations*. NY: Wiley.
- Shapero, A. and Sokol, L. (1982). The social dimensions of entrepreneurship. In C. Kent, D. Sexton, K. Vesper eds., *Encyclopedia of Entrepreneurship*. Englewood Cliffs, N.J.: Prentice-Hall.
- Szanyi, M. (1992). What happened to the Transition in Hungary? An approach from the Management Side. Institute for World Economics, Hungarian Academy of Sciences, Working Paper #11.
- Szegedi, Z. (1989). The economy and international business in Hungary. *Journal of Business Administration* 19 (1&2): 109-120.
- Szelenyi, I. (1988). *Socialist Entrepreneurs: Embourgeoisement in Rural Hungary*. Madison: University of Wisconsin Press.
- Tardos, M. (1983). Small Firms in Hungary. *The New Hungarian Quarterly* 24 (3): 81-93.
- Timmons, J., Smollen, E. and Dingee, A. (1977). *New Venture Creation*. Homewood, IL: Irwin.
- Vajda, A. and Kuczsi, T. (1991). The Social Composition of "Small Entrepreneurs." Budapest: Research Institute of Labour, Central Statistical Office.
- Woo, C. Y. and Willard, G. (1983). Performance representation in business policy research: Discussion and recommendation. *Academy of Management Best Paper Proceedings*: 426.