With his face full of cares, Gábor Huszár, Vice-President for Finance at RBA, got into his Volga company car. The car accelerated with a dignified slowness as it rolled out of the main gate at the giant company. Ever since he began his career at RBA, Huszár was fully aware of the difficulties involved in negotiating the independence of the Magyarhegy plant.

Two months earlier the management of the Magyarhegy Plant announced that they wanted to regain their independence, and now the negotiations had reached their final phase. Today, representatives from the plant will insist that the company grant them complete independence, while Huszár will attempt to convince them to stay with RBA. Huszár knew the head of the Magyarhegy delegation, Ferenc Baráth, personally. Huszár also knew how difficult it was to negotiate with this uncompromising man. As the miles rolled by, Huszár reflected on the history of the strange marriage between RBA and Magyarhegy.

It all began at the end of the 1970’s. At that time Huszár was the financial vice-president of the Magyarhegy company. The company employed about 3,000 workers and produced small agricultural machinery and poultry-keeping equipment (each piece of equipment was unofficially referred to as a "chicken farm"). These products were supplied to the then stable COMECON market. Everything went well and the company had no thought of giving up its independence. One day, the Ministry of Industry informed the company of a decision to merge Magyarhegy and RBA, and one month later the merger was complete. Only years later, after becoming one of the top managers of the RBA giant, did Huszár understand what had gone on behind the scenes.

In the late 1970’s, RBA was the model of a successful company run by a president who was an illustrious and dynamic socialist manager. The president created a highly centralized company, in which no machine could be moved more than three yards without the president’s own signature of approval. Because of the success of the company, this autocratic management style was counted as a virtue rather than a fault.

RBA was one of the glories of socialist industrial development. The company could produce trucks and trailers of a quality comparable to the global standard. RBA even produced some world-quality rear axles for export, and developed valuable connections with some American firms. This was a tremendous achievement at that time. In exchange for the rear axles, RBA received a license to build high-performance Steiger tractors and, from another company, a license to manufacture an entire family of products for tilling and crop growing. At the same time, RBA was active in adopting the American system of corn cultivation. It was obvious to the powerful president of RBA that the company needed to obtain new markets. The Steiger tractor seemed to be a good base from which to build. He only needed to acquire a company with experience in producing agricultural machinery. The Magyarhegy Company, with its long history and proven expertise, seemed to be an ideal choice. Moreover, this company was located only about 25 miles from the RBA headquarters. It was easy for the president to carry out his plan, because it seemed to make economic sense. He did not meet with any resistance at the upper levels of the communist party hierarchy. In these years, such decisions were very easily executed. The essence of the method was that the ‘victim’ was the last one to know about the decision, and therefore had no opportunity to resist.

"Oh, at the beginning everything was so beautiful," remembered Huszár. At the meeting where the merger was announced, the president of RBA, the Minister, and the
Responsible Comrade from the Party headquarters all gave addresses that were full of optimism. The speeches were so convincing, with their promises of higher wages, guaranteed contracts, and job security, that they even won over the old management of the Magyarhegy plant. This was a great victory because, with a 120 year history, the management of the company founded by Ede Kühle in the 1850s had every reason to pursue continued independence, despite the rationality of any economic arguments.

But what did this marriage really produce? Despite the promises, RBA began to centralize the organization by laying off Magyarhegy's former administration. Initially, Magyarhegy was organized in a traditional structure with two vice presidents (production and financial). This structure was gradually changed until, in the last year of the merger, Magyarhegy did not represent an independent management entity at all, but was entirely linked to RBA.

In the first years of the merger, however, the initial optimism seemed to be well-founded. The star of the dynamic president and his growing company was higher than ever. In addition to the Hungarian market, RBA felt it could get a big piece of the Russian market. Czechoslovakia was also interested in the most modern agricultural machinery, the "peace camp" had to offer. ("Peace Camp" was used as a political label for and by the socialist countries contrasting them to the less peaceful imperialists.) As a result of COMECON's efforts to increase specialization, RBA was given not only tractor production but rear axles, engines, and trucks as well. The Hungarian market consisted of about 300 tractors per year and 1,000 pieces of agricultural machinery. Most of the agricultural machinery the company produced was licensed from International Harvester Company. Even the most pessimistic estimates projected the demand for "chicken farms" in Russia at 500 to 2,000 pieces of equipment per year, and that was for Ukraine alone.

The company also discovered the potential of the Middle East. "Those were the good old days," remembered Huszár. The Arab countries had money and the RBA appeared to have a virtual monopoly in poultry equipment. This favorable position had been attained through RBA's cooperation with the state farm BABOA, which had been world famous for its poultry programs. RBA bundled its equipment with BABOA's know-how. This cooperation, combined with Magyarhegy's unique technology (it was designed for 30-50 thousand chickens and was much bigger than the competitor's equipment) and solid governmental support, would certainly lead to phenomenal success.

The tractor line did not receive as much attention. No one at RBA seemed to recognize that the new tractors scheduled to be built at Magyarhegy were twice as big as the ones previously manufactured in facilities originally designed for much smaller products.

In the mid-1980's, the socialist economies began to experience a simultaneous downturn. In Moscow, the president of RBA shook hands with the Soviet Central Committee Secretary responsible for agriculture—a man named Gorbachev—but was unable to gain access to the Russian market because the Russians could not deliver anything in return. Meanwhile, sales in Hungary turned out to be smaller than expected. RBA was also knocked out of the Arab countries by competition from Brazil. After a fierce price war, RBA completely lost the mid-East market.

"We should have realized that we were in trouble," sighed Huszár. "It is obvious now, but at the time the seriousness of the economic problems in Hungary was not clear, and the dramatic political changes in Eastern Europe were not foreseen."

In a break with tradition, RBA's president began reorganizing and downsizing the company. The total number of employees went from 24,000 in 1979 to 14,500 by 1989.
Roughly one tenth of this number, 1,500 people, were working in Magyarhegy. The changing political environment had weakened the president's once powerful position.

As the success of the company began to decline, the voices of those at the Magyarhegy plant who had opposed the merger became louder and louder.

"In our plant, the profile and organization of the production is different," said these voices. "While RBA operates very much like an assembly line, traditionally, we have been operating in a small volume, job-shop environment".

Maybe the most important difference was the thinking. In the Magyarhegy plant there had been a large number of shop chiefs who were relatively independent. Their independence did not fit well in the centralized RBA structure, so these positions were eliminated. Of course, many within the company attributed the decline in success to this change. The euphoric atmosphere accompanying the merger had passed, and it became fashionable again to speak about the 150 year long history of the company.

Then, the last cause leading to this present negotiation flashed through Huszár’s mind. RBA told the plant that 120 workers must commute the 25 mile distance between Magyarhegy and Gyar. RBA argued that sales of sowing machines manufactured in Magyarhegy were very low, while the company was having trouble meeting the tremendous demand for its rear axles produced in Gyar.

The Magyarhegy employees countered that this situation is due to the refusal of RBA to modernize the Magyarhegy plant. "It is obvious that nobody needs expensive products manufactured on outmoded machinery," argued the employees. "We have received almost nothing from the big investment fund in the last ten years, but our profits have continued to go into the fund. We didn't even get anything after the highly profitable chicken farm exports. Should we have to pay the price of this present reorganization? If we lose the best of our skilled workers, can we ever be independent again?"

"It is a difficult situation," pondered Huszár. "RBA’s president is indeed pursuing a policy of cutting regional production so that all plants will be linked directly to the corporate center. This policy sometimes overshadows even economic considerations. RBA now has to face the consequences of this strategy. It is quite absurd, though, that a company as large as RBA should make decisions based on the interests of a single plant one-tenth the size of the company, even if this plant once was an independent company. Now the people from Magyarhegy seem to forget the 160,000 square feet building which was transplanted from Budapest to Magyarhegy. The profit of such a big company can’t be distributed according to one plant’s wish list."

"And last, but not least, the politics!" sighed Huszár. "In these uncertain times all organizations involved in politics think that it is worthwhile to give a political flavor to economic issues. Because of this, RBA’s president can be discredited if he no longer fits in with the new political situation. Although RBA’s top management was motivated only by economic considerations when contemplating replacing the president, such a replacement could easily be used to make a political statement."

"Moreover, there is the Council of Workers," continued Huszár. "Dealing with this recreated organization, completely independent of the traditional trade unions, is my responsibility. Barath, an engineer and the plant director, is a typical leader of workers with both the good and bad sides of it. His honesty and straightforwardness are very rare these days. The economic processes very often cross the interests of the workers, and sometimes short-run interests should be sacrificed for long-run ones. This type of short-term sacrifice for the long-term good of the company can’t be expected from the Magyarhegy workers, however, since they don’t even feel that they belong to RBA."

"Let’s have a look at what they demand again!" Huszár said to himself as he
opened his brief-case and looked for the letter with the demands of Magyarhegy. He had a secret hope that the demands would have softened since the last time he read them, but they remained unchanged:

1. Independence, and profit sharing proportionate to the weight of the plant;
2. To ensure the right of the workers to free self-determination;
3. Re-employment of the 120 laid off Magyarhegy workers.

"What can the RBA say to these demands?" thought Huszár. He lit a cigarette to reduce his nervousness. "The trump card is obviously the size and goodwill of RBA. In their meeting yesterday, the directors decided to offer a divisional operating form to the Magyarhegy plant. In practice, this means an independent administration and almost full economic independence. The only important thing for RBA would be to have a share of the agricultural machinery market. But how can we be sure that the Kühle traditions will not strengthen the workers' aspirations for independence? Huszár continued to speculate as his Volga rolled through the gate of the Magyarhegy Plant.

Table 1

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<th>Economic Indicator</th>
<th>1977</th>
<th>1989</th>
<th>1990</th>
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<td>Turnover (million HUF)</td>
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<td>Agricultural machinery</td>
<td>579</td>
<td>701</td>
<td>717</td>
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<td>Chicken farm equipment</td>
<td>844</td>
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<td>Profits</td>
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Table 2

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<th>Economic Indicator</th>
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<th>1990</th>
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<td>Turnover (million HUF)</td>
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<td>Axles</td>
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<td>26.2</td>
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<td>Trucks</td>
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<td>6.6</td>
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<tr>
<td>Agricultural machinery</td>
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<tr>
<td>Profits</td>
<td>3,063</td>
<td>95</td>
<td>(3,077)</td>
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Questions:
1. What suggestions would you make for Huszár?
2. What are your suggestions for Baráth?
Figure 1
Management Org. Chart Mag. 1977

Managing Director

Manager Finance
- Finance
- Accounting
- Price Calculation
- Marketing
  - Tilling, sowing, planting, machinery
  - "Chicken farm" Equipment
  - Spare parts

Counselor
- Personnel
- Economic Planning
  - Annual Plans
  - Medium Term Plans
- Organization
- Legal
- Social Benefits

Manager Production
- Technology development
- Product Development
  - International Relations
- Manufacturing
  - Material Supply
  - Shop Manager
  - Plant Director
Figure 2

"The Leader"
President and CEO

Plant Director
- Legal
- Personnel
- Organization
- Director, Mfg.
- Director, Engineering
- Director, Finance
Figure 3

Management Organization Chart RBA 1983

President and CEO

V.P. Engineering

V.P. Marketing

V.P. Finance

V.P. Manufacturing

V.P. R&D

V.P. Purchasing

Domestic

Social Relations

Capitalist Relations

Trucks

Axles

Magyarhegy

V.P. Personnel

Dpt. Hd. Quality Control