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## New Strategies in the Hungarian Clothing Industry

The ongoing social and economic changes in Hungary are imposing enormous challenges to the sphere of production and, specifically, to business managers: the movement towards a market economy is accompanied by a deep economic crisis and the collapse of traditional markets. In the clothing industry the efforts at restructuring started well before the political upheavals of 1990; in fact the first steps towards restructuring were taken in the early 1980s.

Official statistics in Hungary define the clothing industry as including the textile, the leather and shoe industries. This sector — which has 4.3 % of the technical means and which employs 16.8 % of the country's workforce — accounted for 8.4 % of gross industrial product and for 12.4 % of total convertible exports in 1990. In 1991, exports to the former socialist countries of Central East Europe dropped to one fifth of the figures of 1990, while convertible exports have increased by 33 % from 1990 to 1991. More than two thirds of the clothing industry's production is sold on the domestic markets. Over one quarter (27 %) of total production (with a total value of around USD 600 million) is convertible exports sold mainly to the advanced industrial countries of the west.

This radical change in the market situation has caused serious difficulties for the industry. In 1990, 341 of the total of 917 clothing firms in Hungary suffered major losses. Total production was down by 25 %, and between 1989 and 1991 the workforce was reduced by 40,000 people. These same trends are still continuing, although some firms are having difficulties in recruiting staff. In 1991 the working week was reduced to 3-4 days, and workers were frequently laid off. Many firms

have gone bankrupt. The sector has also suffered badly from cash-flow problems, the collapse of its Eastern markets and from import liberalization.

The present situation in the Hungarian clothing industry can only be understood against the background of the economic, commercial, technical and organizational processes that have shaped the national economy during the past few decades. Cooperation within the framework of the CMEA presented its own dysfunctions at the beginning of the 1980s in the form of bureaucratic regulation through state agreements. The member states have failed to respect these agreements which regulate their cooperation, and because of increasing financial difficulties they have attempted to sell their best quality products (machinery, raw materials and final products) only for convertible hard currency even on the East European socialist markets.

In Hungary the clothing industry has now turned its attention to the markets of the advanced industrial countries and to the affluent Arab markets (West Germany, France, UK, Netherlands, USA, Kuwait and others). Starting from the early 1970s the policy of the industry on these quality markets has been not only to sell its final products but also to offer various forms of production cooperation. Although disputed at the time, this line has now been recognized as an innovative move: it has led to numerous innovations in the field of technology, work organization and managerial strategies. (Managers in the Hungarian clothing industry assimilated many ideas from the west with regard to marketing, design and production methods. Several foreign consultancies came into Hungarian firms to introduce new organizational methods and to improve productivity. The mainstream of these efforts concentrated on production lines, on the reorganization of assembly lines and their auxiliary activities. Within the confines of the shortage economy, the plan was to introduce Fordist organizational techniques to help eliminate the problem of low organizational efficiency and the dominance of informality: motion and time measurement studies, cost-analysis and individual incentive systems.)

In the 1980s the Hungarian clothing industry pursued a dual strategy in response to changing market conditions: on the one hand the industry relied increasingly on sales to Western Europe, while on the other hand the mass markets in Eastern Europe were declining. However, volume sales to Eastern Europe were still a significant factor (with the Soviet Union placing massive long-series orders). The production capacity was therefore still largely geared for low price and low quality, but at the same time the stiffening competition and the diversification of consumer demands on the West European markets forced Hungarian clothing firms to adopt more flexible production systems. The Fordist assembly lines were largely kept in place, and that the search for flexibility turned elsewhere. Because of the relative stability of the East European mass markets and the then critical requirement of maintaining full employment, producers were reluctant to touch the core sphere of production. Instead, they sought to meet the stricter demands of the Western markets by upgrading the level of technology in the supportive and auxiliary sectors of production. A greater variety of models, reduced order volumes, the elimination of delivery delays, standardized quality and a faster manufacturing process — all that was achieved by improving the firm organization for a basically Fordist type of production. Information technologies were introduced in the preparation of production, automated stocking systems were set up, and computerized information systems were adopted in management functions.

Starting from the early 1980s increasing support has gone to small and medium-sized firms in the fast-growing cooperative and private sector. These new firms grew up in response to the differentiating demands of the national and international markets, using existing and available technical and organizational methods to assure flexibility. It is not easy at this time to evaluate the impact and contribution of this small business sector because it has been growing so fast and because it relies so heavily on the informal economy; a reliable analysis will only be possible within a few years' time after these firms have established their market positions. There are two basic scenarios: these

firms may either pursue innovative strategies of original design and high-quality products and use highly skilled and well-paid labour, relying on specialized network-type relations among small and flexible units; or they may decide to follow a different path of business development, reacting only to changing market needs and using unskilled, low-wage labour, maintaining subcontracting relations with bigger and more established clothing firms.

The early 1990s has seen not only a profound political transformation of Eastern Central Europe, but also the collapse of economic cooperation within that region. For the clothing industry in Hungary, this has implied a loss of a lion's share of the market of mass-produced goods. It is no easy challenge for the industry to reorganize and redirect its productive resources for the Western markets, whose stricter and more diversified quality demands would require major investments in production technologies, sophisticated technical instruments and methods of product design and marketing. At this time the national economy does not have the resources for such a profound modernization of its clothing industry.

The ongoing shift towards market economy does, however, imply a reorganization of the country's enterprise system according to the new Company Act (1989) and a privatization of publicly-owned companies. Newly released from their social and welfare responsibilities, employers are now laying off people in large numbers. This applies to the clothing sector as well.

According to a government analysis the main reasons for the failure of clothing firms to adapt to the new situation lies in their outdated product structures, their low level of technological sophistication, quality problems and lack of managerial skills. At the same time, there are a few firms which have reached the same level and standards as western producers (e.g. Styl, Gardenia, Mestermunka). This analysis identified the following priorities that should help to stabilize the production of the clothing industry; the aim must be to

- strengthen commercial and marketing efforts;
- speed up product and process modernization;
- closely follow the latest fashion trends;
- improve quality;
- increase the number of managers with marketing experience and professional skills;
- increase the qualification level of workers (which is extremely difficult in view of the low wages in the sector); and
- support entrepreneurial activities by preferential credit schemes.

During the 1980s employment numbers in the clothing industry declined at an average annual rate of about 2 %; during the past three years the figure has soared to 25 %. Redundancies have most particularly affected women, who represent 80 % of the total workforce in the Hungarian clothing industry, which in turn is the main employer of women in the country. A continued decline in this sector could seriously endanger female employment and therefore have a devastating effect on family incomes.

The privatization of publicly-owned firms in Hungary — a process supervised by the State Property Agency — is advancing very slowly. The first to go are obviously those firms that are well-placed on the market. Clothing firms, in this competitive situation, have limited appeal to foreign capital. Some of the most successful companies have now been taken over and transformed into mixed ownership, but even here further capital investments would be needed for modernization purposes. Most of the buyers are earlier partners in production cooperation. In different firms management has proposed various schemes for employee ownership or financial participation in the firm. Because of the low interest of foreign capital, the importance of these initiatives is growing and they are now receiving greater support from the part of the State Property Agency.

As clothing firms are changing hands, they are at once being modernized and restructured. The complex changes that are now going on have intensified the power struggle among management groups

within the firms, as well as between management and labour. In the absence of the necessary financial resources even for basic investments, this power struggle serves to divert attention away from the most important issue of all: the reorganization of production. Under these circumstances very few firms in the clothing sector are capable of creating long-term development strategies.

In spite of their many difficulties, clothing firms in Hungary are making serious efforts to adapt to the changing market situations and to maintain and even increase their international market shares. There are some useful examples:

Many firms have decided to continue with the tradition of production cooperation that started in the 1970s, in spite of increasing competition from other possible subcontractors. In fact, some firms have even sought to develop this form of cooperation further by subcontracting labour-intensive phases of the production process to low-wage countries (Rumania, Ukraine, Vietnam, etc.). Certain new forms of subcontracting are also spreading as smaller orders are carried out on the basis of the subcontractor's own model of jointly designed models.

In convertible exports production cooperation already represents 65 % of total output. Hungarian firms specialize mainly in tailoring and sewing, using Western design and marketing methods. In connection with subcontracting, there will often be arrangements to modernize supporting activities, such as computer-aided preparation of tailoring. The automation of the stocking system and computerized databases on customers and raw material suppliers have helped to cut delivery times. All this has favourable effects on the firm's market position and it helps to raise its level of technological sophistication. In the long run, however, it has contradictory effects for it may prevent the firm from entering the market with higher qualified services and products. Further, there is the obvious risk that the firm lands in a dependent position in international cooperation.

For the marketing of their products many Hungarian clothing firms have set up their own foreign sales departments; there are also some

joint ventures with foreign trading companies to ensure direct and quicker access to the markets. The ongoing process of decentralization in the Hungarian clothing industry, with big companies being split up into smaller units, also helps to keep the producers in closer contact with the market and its changing demands. The number of small and medium-sized firms in Hungary has been increasing since 1988. In 1990, 27.7 % of total production in the clothing industry came from small firms with less than 20 employees. Their role is most important on the local and national markets. While decentralization has positive effects in terms of flexibility, it is clear that the new small units are at a disadvantage when it comes to financing.

In 1990 there were a total of 95 clothing firms in Hungary that were under mixed ownership. The main motivation for foreign investment has been to help stabilize production cooperation and to internalize the formerly subcontracted phases of production. The continuous rise in investment levels in this sector since the late 1980s is also due to the newly-created joint ventures. Between 1989 and 1990, HUF 4,437 million were invested in these firms. Overall the prospects are that the Hungarian clothing industry might well be able to strengthen its market positions in the future.

In summary then, the point we have wanted to highlight in this paper is that the most radical changes that are now taking place in the Hungarian clothing industry are not in production structures but rather in organizational and ownership structures. This implies that 1) managerial activities are being upgraded, 2) design and marketing and other high-skill areas are given increasing attention, 3) new forms of subcontracting are spreading, which mean smaller order volumes and jointly elaborated models, 4) cost analysis and control activities are integrated in managerial activities to meet stricter market demands.

The issues that today dominate the Western debate on new production concepts — post-Fordism, green product concepts, Toyotism, etc. — are not, for the time being, on the agenda of the Hungarian clothing industry's everyday life. The main efforts are now directed at keeping

the firms alive with the much reduced staff levels. Once it has overcome the managerial power struggle related to the privatization and the decentralization of the industry, management probably will redirect its attention to innovative strategies in the production organization.

## References

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