

Gervai, Pál; Trautmann, László; Wieszt, Attila

Working Paper

The mission and culture of the corporation

BERG Working Paper Series on Government and Growth, No. 74

Provided in Cooperation with:

Bamberg Economic Research Group, Bamberg University

Suggested Citation: Gervai, Pál; Trautmann, László; Wieszt, Attila (2010) : The mission and culture of the corporation, BERG Working Paper Series on Government and Growth, No. 74, ISBN 978-3-931052-82-9, Bamberg University, Bamberg Economic Research Group on Government and Growth (BERG), Bamberg

This Version is available at:

<https://hdl.handle.net/10419/45549>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The mission and culture of the corporation

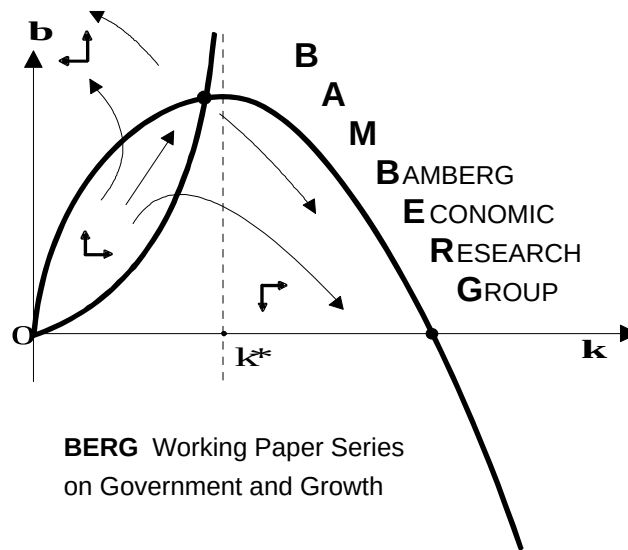
Pál Gervai

László Trautmann

Attila Wiesz

Working Paper No. 74

October 2010



BERG Working Paper Series
on Government and Growth

Bamberg Economic Research Group
on Government and Growth

Bamberg University

Feldkirchenstraße 21

D-96045 Bamberg

Telefax: (0951) 863 5547

Telephone: (0951) 863 2547

E-mail: public-finance@uni-bamberg.de

<http://www.uni-bamberg.de/vwl-fiwi/forschung/berg/>

ISBN 978-3-931052-82-9

Reihenherausgeber: BERG
Heinz-Dieter Wenzel

Redaktion
Felix Stübben *

* felix.stuebben@uni-bamberg.de

The mission and culture of the corporation

**Pál Gervai
László Trautmann
Attila Wiesz**

Abstract

The economic crisis has brought a new situation also for the Hungarian economic policy, as neoliberalism as the main trend in economic thought is no longer valid. This phenomenon cannot be reduced to be a mere macroeconomic course shift, as an entire economic philosophy and approach has lost its relevance. One consequence of this is the need for a thorough revision of the theory and practice of business management, along with the re-evaluation of the notion and position of the corporation.

Our study aims to contribute to this theoretical reformation, presenting that social values derived from psychological and sociological findings such as human motivational theories or trust are fundamental elements of the 21st century corporate model. To point to this, we use the ideological correspondences, while proving that our national research on corporate theory and even rather its application are far behind the 21st century requirements and lack even the Western view of the 20th century.

Keywords: economic theory, organization, mission, trust, corporate culture, transactional cost, motivational cost

JEL Classification: A13, B50, L00

Contents

1. Introduction	3
2. Technology and the corporation.....	5
3. Mission and corporation.....	6
3.1. The notion of mission	6
3.2. Trust and mission.....	10
3.3. The family and the corporation.....	12
4. Corporate culture	14
5. The theory of transaction costs and efficiency.....	17
5.1. On the theory in general.....	17
5.2. Transaction costs.....	19
5.2.1. The types of transaction costs	20
5.2.2. Motivation costs	23
5.2.3. Costs of imperfect engagement	25
6. Bibliography	31

1. Introduction

The economic crisis has brought a new situation also for the Hungarian economic policy, as neoliberalism as the main trend in economic thought is no longer valid. This phenomenon cannot be reduced to be a mere macroeconomic course shift, as an entire economic philosophy and approach has lost its relevance. One consequence of this is the need for a thorough revision of the theory and practice of business management, along with the re-evaluation of the notion and position of the corporation.

In the past 20-25 years, the national economic and business sciences interpreted the corporation according to its 19th century definition. What it means is that the corporation was seen as an institution alienated from labor and technology. Masses of workers of monotonous, physical labor on one side, and a small group of managers engaged in mental activities for their own goals and a high salary on the other. The utterances of certain Hungarian managers during the past 20 years clearly reflect this outlook. For them, the boom in the national higher education was more of a restriction on development, as they could not utilize the more skilled labor force. They considered the social supply system and the institution of minimum wage as burdens which decrease profitability, while not realizing that in a knowledge-based economy secure living is one driving force of productivity. They wanted to monopolize, as they were unable to adapt the model of democratic and perfect competition created by the West in the 20th century. It was in the 30s and 40s that this approach determined the economic policy of the US in the form of the New Deal program. After World War II, the spirit of the New Deal was imported to Western Europe. Right now, the catching up projects of the Central Eastern European countries is based on the same program but is behind the expected.

The idea that in the 20th century the competition is the interest of the corporation as well, for it is a tool in development is so natural in the Western economies, but so alien from the Hungarian corporate culture. Corporations wanted to get rid of the economic political aspects, believing that the sole task of the economic policy was to look after the interests of corporations, as corporations are superior to politics. This is why they could not accept the intuitional system of the European Union, because the EU wants to enforce its value system without conditions. In the EU, just like in the Western world, those are not the corporations but the economic policy that rules and the corporations are what follow the main trends of the economic policy.

In order to catch up with the Western corporate culture, an economic view shift is necessary, which requires theoretical and practical research simultaneously. As for the theoretical side, it is inevitable to elaborate and incorporate the 20th century corporation theories into the economic ideology. It means two requirements:

(1) It is necessary to process the results of the economic thought before Smith, especially the ancient philosophies, which may contribute to the re-evaluation of the 20th century results as the adaptation of the ancient high culture's tradition within the technological frames of the new world order. The economic thought has not begun with the theories of Smith, which are re-evaluated and developed by the 20th century economics, but it reaches back to the birth of human culture. Consequently, economics managed to apply its basic values to the economy sometimes better, sometimes worse during its history, in which Smith was just one but significant figure. He represented the economic tradition of the classical republicanism, which had to cooperate, due to the technical needs of his era, with the capitalist system, while restricting it. This was unsuccessful, the true testimony of which is the economic history of the 21st century.

(2) Marx and the Marxist tradition declared the necessity of a return to high culture in the opposition of the inconsistencies of his era and the classical capitalism. The second ideological requirement, therefore, is to incorporate Marxism into the economic theory, namely, into the corporate theory. Without reflections on Marx and Marxism, the Western corporate theory cannot be understood. Since even the Hungarian corporate theory was not characterized by an anti-Marxist attitude in the past 20 years, nor could the Western results be broadcasted authentically to our corporate managers.

Recently this did not pose a problem, because multinational companies, which represent the pulling power of the Hungarian economy, managed to establish a new production and consumption culture without a theoretical clearing. In these days, however, it is an imperative that the sector of national small and medium businesses accepts and apply the production culture of the multinationals, which view-forming is possible only within more solid theoretical frames.

Our study aims to contribute to this theoretical reformation, presenting that social values such as trust are fundamental elements of the 21st century corporate model. To point to this, we use the ideological correspondences, while proving that our national research on corporate theory and even rather its application are far behind the 21st century requirements and lack even the Western view of the 20th century.

2. Technology and the corporation

In order to understand the notion of the corporation, first the interpretation of the technological process is needed. Technology is the production realization of the value system behind society and economy, that is, it is their skeleton, on which the social and economic organizations can be strung. So can a corporation. Thorsten Veblen observed, already in the early 20th century, that economy is governed by a uniform technological process, whose elements and periods are realized by business organizations. The question, then, as posed in his volume *Theory of Business Enterprise*, is what explains the existence of various business organizations, that is, what is the content of freedom in the business world.

“It is the grave and consequential issue of every modern community to sustain the industrial balance and to adjust the diverse operations and needs of the numerous industrial processes... (T)he means, with which this balance is sustained is business transaction – and the people whose task the balancing is – are businessmen”¹ (Veblen 1962).

The business world and the corporations are parts of the institutional system which bring the technology and the value system into force in the Veblenian sense. The corporation is not simply a profit maximalizing unit, but the preserver of the socio-economic order. The essence of a business transaction is not merely the profit, but the preservation of the value system. The independent application of the value system is the freedom itself. In the business, corporate freedom is required so that necessity be paired with the preservation of freedom and the effort toward development. It is true only to the world of classical capitalism that the corporations remain indifferent about social processes and the values that govern society, as they could interpret necessities only in opposition with freedom.

Naturally, it is the transaction, the exchange that upholds the model of classical capitalism, as described by Marx. An essential element of the production, however, is that the participants do not form the socio-economic processes consciously, as they are alienated by and subjected to the market laws without being aware of them. This is why Marx and Engels emphasized the blind nature of the economic laws. All this, however, holds not generally, but for the economic operation of the classical capitalism. To rise above this level of capitalism, the economic figures need to become conscious and take part in forming the value system of the society and the economy. What this means is the unconditional acceptance and application of the basic values such as security, freedom, democ-

¹ Translated to English from the Hungarian translation of the original text

racy, and welfare in the political, economic, and cultural relations. The 21st century differs fundamentally from all preceding periods in that the consistent application of the values is already possible thanks to the technology. Previous eras were characterized by the lack of harmony due to the oppositions between one value and another.

A novelty of the 20th century, as Veblen points out, is that the effort to preserve order and the value system is part of the corporation's proper operation. Its moral values, such as justice and efficiency, have to be built into its system. The classical capitalistic model determined our national corporate culture in the past 20 years and the economic theory of the Kádár-era. According to the dominant view, the corporations wanted to monopolize, backing out from competition, which effort have to be seen as rightful and logical as a fact. The economic policy has to adapt to this, accepting the views of the competition's winner. In other words, the economic policy does not shape but follows the results of the competition. This attitude does not fit the 20th century Western view, which is why the question arising there in the early 20th century is particularly timely here at this moment. The contemporary American solution was the declaration of the corporation's mission, that is, to involve the entire corporate community in a common value system.

3. Mission and corporation

3.1. The notion of mission

The category of corporate mission plays a key role in establishing harmony between the corporations and the economic policy. The notion of mission appeared in the early 20th century in corporate theory and practice, first in the US, then, after World War II, in Europe. The first to attribute a mission to their corporations were American tycoons in the early 21st century and late 20th century (like J.P. Morgan, Andrew Carnegie, John D. Rockefeller, etc.) who treated their corporations and the corporate power as moral matters, that is, as the very means of strengthening certain values within the society.

Exactly this attitude is what explains that Morgan took over the handling of the 1907 financial crisis, forcing the other commercial banks to follow his lead. Similarly, Rockefeller considered the Protestant values to be the conditions of corporate efficiency, which is why Weber called him the epitome of Protestant ethics. In his "Protestant Ethics and the Spirit of Capitalism," he criticizes the German corporations for placing money before moral values (Weber, 1995). They misunderstood the essence of Protestantism, as money and profit can only reflect moral perfection. It has to be pointed out, though, that while there is a

clear parallel between Weber's thoughts and the American moral trends, the structures of these corporations were not restricted to Protestant values, but they built on other religions and other corporate forms. This is the condition that facilitated, or forced, that also the economic policy strived for the tuning of diverse cultures and traditions on the basis of a common value system. On the contrary, the German development of the 20s and 30s interpreted the notion of mission so that values are separable from the corporate community. A community can be established on false and deformed values such as exclusion, which is well exemplified by the formation of the Fascist corporate model. This is why it is vital to stress that a real community can be created from the universal human laws and from the idea of freedom. The basis of the value system has to be high culture.

The notion of mission models clearly the difference between the practices of the 19th and the 20th century (as far as the West is concerned). In the classical capitalist era, the mission had no relevance, as the only aim of the corporation was the profit, independently from its source. Possessing the social resources for its own power and wealth was the only driving force, not the aspect how it can contribute to the facilitation of common socio-economic goals. It resulted in the confusion of the short and long term sources of profit, so that to satisfy the consumers' short term desires or to deceive them became equivalently good sources of profit as to facilitate their long term progress and to establish cooperation between producers and consumers.

The notion of corporate mission functions to divide these two aspects, strengthening the long term views. The mission of a corporation lays down the market and the circle of consumers which the corporation addresses, determines the product and the service it provides, and restricts the geographical location, in which it is active. Another part of the corporate mission is the selection of the core technology, along with the particularization of the competences which characterize the workers of the corporation and the figures of the production. Furthermore, it encapsulates the corporate community, the corporation's conviction toward survival, growth, and profit, the determining elements of the corporate philosophy, the self-image of the corporation, along with the position it desires to have in society.

The corporation establishes its mission in three steps: (1) it creates its credo, namely, the values it holds important; (2) it establishes its vision, which is the market application of its values; (3) it forms the concrete corporate steps toward the realization of the vision, which is the corporate mission itself.

The elements of the mission clearly demonstrate a step away from the classical capitalist world view. The determination of the market and the consumers means that it does matter for the corporation who it sells to, and it is not the only condition that the buyer has money. The corporation strives to take the social value system into consideration, satisfying the long term needs of a chosen social group.

The corporation expresses, therefore, that it is interested in the development of a given social group, which is its condition for long term profit. To the development of the given social group, the corporation contributes with a certain product or service. With this, the corporation acknowledges, on the one hand, to be part of the social division of labor, in which there is an equal need for other corporations, other products, and others services. On the other hand, the product or service is used as a tool of its own mission. Thus, the product is necessary not only for the profit, but also for the mission, which is another difference from the classical model.

At the same time, it shows the unity between diversification and the stability of the corporation. The strange fact that the corporations are able to shift to all the more different products, services, or activities, without the damage of their corporal integrity, is possible because the interests and needs of their consumer group changed, which requires new products. The definition of the geographical location is part of this, as a common geographical environment is indispensable for the cultural unity of the consumer group. In recent times, the importance of the geographical environment has been overshadowed, setting the illusion, enforced by information technology, that cultural identity does not necessarily need geographical unity. Meanwhile, culture is the expression of the shared ownership of living conditions, whose unity is carried by the geographical-physical environment. Information technology established the technological aspect of global business, in which the geographical dimensions did not disappear, but they extended to the global scene. It is, however, unquestionable that the social sciences of the past 20 years did not enforce this, but it separated culture from the living conditions, deforming the notion of high culture and degrading it into subculture, which is why it cannot be built on. This is why Samuel Huntington's (2005) *Who Are We* illustrates the problem of global identity as a severe matter. This view helps to overcome the nationalism of neoliberalism as well.

In the case of multinationals, the geographical space is the whole world, which means that even globally there exist uniform social groups. These corporations have realized implicitly that the world market infers a uniform social order built on a uniform value system. During their progress, the corporations necessarily

become part of these global geographical frames, so the integration of the social group related to them is indispensable in the new world order. The corporal mission reveals the correspondence of the new world order and globalization.

In classical capitalism, the corporations were fighting only for the consumers' money, a necessary consequence of which was the aggressive, armed conflict. If the aim is the creation of the social identity and development of the given social group, the use of physical, culture-destroying tools has no point anymore in the corporate competition. The corporate culture which opposes to war and subordinates the fight for resources and energy is the result of the 20th century Western development. The condition of sustainable progress is the global management of resources and energy, whose final goal, superior to the success of the corporations, is the harmonious development of each region, country, and territory of the globe.

The corporation declares its effort to accept social goals not just within society, but within the circle of its workers, the main tool of which is technology. The core technology functions as a cultural identity for the employees. This is the exact opposite of Ricardo's view of the corporation, according to which it is the technology that defines the unity of the firm, but the machines, the factory does not require the mental contribution and the sentimental engagement of the worker to the corporation. It is, however, clear that even the 20th century company was unable to function without that, which is increasingly true to the corporations of the 21st century.

In the era of the new technology, its alienation from the worker declines and finally ends: according to Marx's definition, humans move beside the process of the material production (Marx 1967). In other words, it becomes possible that the technical progress involve workers as creative participants. The corporation is not a temporary union, or an arbitrary financial association, but long term co-operation based on identical values and culture. As a consequence, the declaration of engagement is the basis of the community, for the sake of the sustenance, growth, and profit of the corporation.

During the classification of innovation, Joseph Alois Schumpeter elaborated the notion of organizational innovation in the early 20th century (Schumpeter 1989). The organizational innovation means that a co operational order is established for the employees, which facilitates the efficiency and the productivity. This idea shows that the attitude toward the workers changed for the 20th century, as the more democratic production culture helps the increase in efficiency and the realization of the corporate mission. Democracy, however, can only be built on a

shared value system even within the corporation, which has to include the engagement for the corporate mission.

The third element of the corporation's mission is its image within the society, which is the synthesis of the previous two items. The philosophy of the corporation is part of the world view governing the society, which implies that its philosophy is based on the belief that the whole society is organized by a theoretical, philosophical trend. This again contradicts the classical capitalist world view, which excludes certain social groups, denying the possibility of a world view valid for the entire society. The conviction of the 20th century, however, is that the universal human rights have to be secured unconditionally for everyone. The corporation adapts to this, which is why it can create an image acceptable for the entirety of the society. The ideology of the workers' movement is based on this too.

Certain banks and companies made serious efforts to alter their bad image of an immoral corporation in the eyes of society. According to these companies, this image change is a necessary condition of their survival, as their consumers expect a social-conscious attitude from them. This is a brand new element that shows the consciousness of the consumers and the society, which surpasses the short term aspects of profitability and egotism.

3.2. Trust and mission

To define the notion of mission is a vital condition of the efficient and productive operation of a corporation. The mission determines the goal, which forms the consumers and the workers of the corporation into a unified community, and, at the same time, it is the basis of the trust toward the corporation that needs to be born in workers and consumers.

The idea of a correspondence between trust and the corporation's operation comes from Francis Fukuyama in the late 20th century (Fukuyama, 1997). According to his theory, economic achievement is not measured by formal indicators, but by the amount of the corporations and the possibilities of their formation within the given economy. The corporation, or the very fact of "going corporate," implies trust among the economic figures. The bigger the corporation, the wider its trust can extend; consequently, a big corporation signals that the view building on trust, cooperation, and collective efficiency is present in the economy more firmly. The extension and force of trust are characterized in business sciences by the measure of those involved in the operation of the corporation. Contrary to the view that evaluates a corporation's efficiency and productivity by the satisfaction of its shareholders, this way of measuring the opera-

tion of the corporation involves the opinions of its stakeholders as well. This latter view implies and acknowledges that the extension of trust and the financial income of a corporation are not always in equal proportion, and it is trust and the realization of the mission that matter for the society.

Fukuyama argues that America's greatness comes from a spirit of individual liberty balanced by "a rich network of voluntary associations and community structures to which individuals have subordinated their narrow interests." It is similar in Japan and Germany, Fukuyama writes, and this trait accounts for the dominance of these countries in the international marketplace. Only societies with a high degree of social trust can create the flexible, large-scale business organizations needed for successful competition in the global economy. The basis of Fukuyama's reasoning is that the American companies were the first to define their mission in global dimensions. He calls a community built on global values as social capital, which is the source of economic productivity.

The need for a corporate effort to create trust is not part of our current national practices yet, as a significant number of the enterprises fail to see the importance in taking responsibility for preserving the social and economic stability. The view that corporation has to serve the welfare of its leadership, independently from the main processes of the economic policy is still in effect. This model, incompatible with progress and the new world order, is the heritage of the 19th century. It is impossible to separate the management of a corporation and the management of economic policy, emphasizing the value system in one (economy policy) and ignoring it in the other (corporation). This attitude is reflected in several Hungarian studies on corporate business (see Attila Chikán's (2005) *Corporate Economics* or the very recent study volume *In Competition With the World* edited by Attila Chikán and Erzsébet Czakó for example).

Creating trust and building a community around the corporation can be accomplished only in harmony with the social value system. This is what accounts for the fact that it is not sufficient to base the explanation of social processes on trust alone, as it happened in certain social studies (see Szántó's (1997) *Employers, Employees, and Clients: Draft on the Notion of Corruption* for example). The foundation of trust is the social question, according to which we have to separate the trust system based on values and that which ignores it. The former is acceptable and adequate to serve the long term progress of the society, politics, and culture. The latter, on the other hand, is a networking in the wrong sense, whose operation does not help the social development.

The strong affinity of the state and the corporation is exemplified by the mafia based on a deformed trust system. It is also trust that serves as the foundation of

the mafia or organized crime. In this case, there is no need for an identical value system, as trust is based on family relations. Group identity and belonging, consequently, does not require the consistent enforcement of the values. The cooperation is aimed at infamy and the collective involvement in sin. The mafia is a corporation in a certain sense, as it guarantees a living for its members, but it is a corporation that works against the state of laws, destroying the trust in the state and its values, which is why every state whose aim is progress considers the mafia as the primary public enemy.

An interesting historical example is the Italy of the 20th century, where the mafia was forced back most by the Fascist state, which was itself mafia-like.

3.3. The family and the corporation

Fukuyama connects the origin of trust to the institution and extension of the family. According to one of his hypotheses, the efficient operation and the long term survival of a corporation depends on how flexibly the institution of the family can adapt to the requirements of the values to be applied, that is, to the economic policy. The family, as Fukuyama claims, unites the social functions and family ties. The trust within the family strengthens the productive cooperation, which is the basis of social and economic development. Meanwhile, a family-run corporation or economic unit requires that the most skilled be involved in the corporate management, a condition of which is the extension and adaptation of the family. In Fukuyama's view, the most successful societies and economies were those that managed to reconcile the values by finding the adequate institutional form, in which the long run settlement of the conflicts between the values was possible.

As a solution to the management issue, a special institution was born in the American corporate structure: the notion of the CEO (chief executive officer). As compared to the Hungarian head manager, the CEO is a leader with a bigger scope for action and self-realization, who can feel to own the company more than the head manager who is exposed to the dilemma how much to follow the lead of the owners. In Japan, the same problem was solved by adoption. A leader who is not connected to the owners by blood, but whose capacities and expertise are indispensable for the corporation's survival, the family adopts as a child. This is how the necessary engagement for the corporation is secured in Japan.

Fukuyama naturally does not consider the family-based organizational structure as an exclusive factor. Another similarly important element, in his view, is that the corporation guarantees the opportunity for mobility, pointing to the German

corporate model, in which certain jobs have training opportunities. As opposed to other countries where managerial jobs and levels are determined by the certificates of the workers (undergraduate, graduate, postgraduate), in the German corporation the educational qualification is just one factor beside other trainings.

An employee can obtain several qualifications other than his/her original, by which his/her sphere of activity can broaden or tighten. This involves mobility not only in a horizontal sense, but also in the vertical, toward the position of a middle manager. This model described by Fukuyama as characterizing Germany but also the entire Western corporate culture is relevant in linking mobility and stability. Workers become interested, individually and collectively, in the maintenance of the corporation. This model is called *Mitbestimmung*, that is, the system of “collective choice.” Within the frames of the *Mitbestimmung*, the corporate management is in close cooperation with the trade unions or committees, discussing every significant strategic issue. This lead not to a slow decision making process, but to the democratization of responsibility for the community. This democracy, being the institution of trust, distinguishes the *Mitbestimmung* in the post-war era from the corporate model between the two World Wars, in which blind faith was the link between employees and managers. The main difference between trust and blind faith is the former implies the guarantee of personal progress, prosperity, and welfare.

One signal of this distinction is the changed name of the corporation’s head. Before World War II, the corporate leader was called *Führer*, which after the war was altered to *Manager*.

A fundamental condition of a corporation’s growth is that the advance of its employees should follow organized, clear, and predictable rules. Fukuyama’s theory points out that if this is not the case, as promotion is arbitrary, the progress halts and it will be difficult to mobilize collective action. The model of *Mitbestimmung* is a given, almost a common place, in the German territories. It is still important to put this into focus, because in our region neoliberalism followed the model of the extension of participatory democracy, keeping an anachronistic economic model alive.

The Hungarian corporate practice is characterized partially by this old-fashioned view and the incapacity to recognize the conditions necessary for growth. Our corporate managers failed to comprehend that the corporation is a community of interests, based on trust, which is the manifestation of mobility and stability in unity. The corporation, instead, was viewed as the institution of exploitation, oppression, and authoritative rule, not as a democratic organization. They failed to dedicate energy for their workers, treating them as talking tools, which led to

the halt in progress and the decrease in efficiency and productivity. The corporation had only single goal, the profit, as its managers were ignorant about the other two aims, growth and survival. Culture was not involved in the analysis of corporate survival, even though trust and production culture are the two sides of the same process.

4. Corporate culture

Fukuyama's model can be criticized for not linking the notions of trust and production culture. Naturally, he examines the institutional elements, and the significance of his work lies exactly in the fact that he interprets the corporation to be an institution, bringing on the traditions of the 20th century American institutional economics. The notion of family, however, is far too narrow, as it is unable to give a frame for every model of corporate development. The family is just one type of the social organizational forms, beside which there have always existed supplementary institutional organizations. Clans, tribes, or later cities and towns were the institutions above the family, which were based only in the very beginning on kinship, but with human development, cultural ties and value communities became the bases of the institution.

Even in ancient societies, the relations of brother-sister or father-son were not based exclusively on blood ties, but also according to social-production needs. In the ancient history of humanity, the institutional order of kinship goes beyond family relations, which is why society can adapt to the needs of the different eras. Clans, therefore, can be considered as the early forms of the corporation.

Production needs and the progress in the division of labor required the formation of a value-based community, and vice versa: the value system formed the division of labor. The same process can be grasped in the notion of the current corporate culture. Often the definition of corporate culture (or culture in general) emphasizes only customs and traditions (Huntington 2001). This is not the negation of values, but the lack of a clear distinction between values and culture and the ignorance of the laws by which culture develops. Culture, whose essence is to facilitate the choice between traditions, is the sum of good traditions, that is, it is the tradition of recognizing and following the Good and ending the Bad. Culture is the application of a value system within a community. Sustaining a community is mainly the task of a culture-driven production, while establishing and following a culture is mainly the task of the community. Therefore, the corporation, or any community, is a cultural community at the same time. In this case, however, we are talking about a subculture. The essence of the difference between subculture and high culture lies in the fact that the former accepts exclu-

sion, exploitation, and lawlessness, instead of following a certain value system, while the latter is the opposite. The double notion of high culture and subculture can be applied to the description of a corporate community as well.

Ferenc Tőkei does not consider this aspect in his (1988) work on Marxist production modes, which is why he is unable to solve the developmental problem of these models. In the analysis of a production mode, he fails to search for how the different periods of a culture's development appear, as he reduces the question to the ownership of the products and production tools. He does not see that every high culture is born from the fight with barbarianism, and its essence lies in its capacity to form its values into a long term ideological and practical program that facilitates the preservation and continuation of high culture. How much the 20th and 21st century corporate culture is connected to high culture can be measured by the factor how much it contributes to the survival of the civilization.

The constant application of the corporate mission to the concrete historical situation establishes the culture of the corporation. Corporate culture is the system of cooperation within the company, which is present of course in material form, that is, in technological relations as well. It is a condition of a corporation's survival, growth, and profit that it constantly develops its culture, since the continuous application of the value system requires effort from each member of the organization. This requirement has always been present. Even in ancient times, the sustenance of city-states and their households depended on the ability to pass culture and its values on to the next generation.

The same idea is reflected in Homer's works. The climax of Odysseus's story is the assassination of the suitors, which is when Odysseus and Telemachus regain possession of the household. The reason for their glory is their moral superiority, a household based on moral values, as opposed to the excessiveness and possessiveness of the suitors. With this, Homer demonstrates for the Greek that it is impossible to separate the business management within households from the application of moral values, which is the basis of the Greek expansion, the possibility of which is seen from Homer's journeys. While the Iliad demonstrates the creation of a royal institutional system, the Odyssey presents the necessary institutional order, based on value-identity and the unity of the city and the household.

The connection between corporate culture and the value system has to be underlined because our theories on the national corporations rarely include this aspect, failing to help the Hungarian corporate managers to form, strengthen, and develop a corporate culture. It is a problem not only because a firm corporate cul-

ture is the condition of progress, but also because from the second half of the 80s the Hungarian corporate culture degraded significantly. Many corporations closed their gates, but even those that remained eliminated the corporate community they previously had created. This was in fact a necessary step, as they were built on a wrong kind of community, on the fragile balance of achievers and non-achievers, which could accept the new in a very restricted way. Nevertheless, in place of these it was not the Western model that came, but the negation of all kinds of corporate community. The maltreatment of the employees, like the lack of appreciation, exploitation, and oppression, were often put into the center of corporate operation, next to the misconception that the condition of profit is the absence of community. In this deformed tradition, even Fukuyama's family model has a different sense. In the Hungarian corporate culture, the family model operates in two ways: it implies, on the one hand, cooperation and mutual thinking, but, on the other hand, the gentry's tradition of exclusion and non-achievement is also involved. This is why the institution of the family is not sufficient for forming a new corporate culture.

It must be added that Fukuyama goes beyond the corporate level in his later works. In the 2005 volume *State-Building*, he places a more significant emphasis on the analysis of cultural correspondences, but the conditions of the right corporate model remains too much in the background. The principal idea of his book is that cultural development is fundamentally an issue of economic and security policy. Culture is the result of conscious and long term efforts, not random circumstances (Fukuyama 2005). The neoliberal value deformation and its economic political advances appear in the following four fields:

- 1, antisocial market economy, representation of a welfare system, acceptance of uncertainty of existence
- 2, exclusion and negation of participatory democracy, private property vs. state
- 3, the rule of the elite, cliques, inequality of the elite and the mass, negation of liberated work. Instead of this, a democratic institutional system based on trust and the equality of rights is needed.
- 4, negation of competence in management, exclusion of trust from economic decisions. The opposite of this is the foundation of a knowledge-based society and a scientific world view.
- 5, moral nihilism, complicity, a direct ideological consequence of which is that the wide use of the Mandeville model in the past 20 years. Instead of this, Joseph Stiglitz's work, stressing the right motivators over the wrong ones, can be used as a guideline.

On the tracks of neoliberalism criticized, a new economic paradigm comes into shape.

5. The theory of transaction costs and efficiency

5.1. On the theory in general

The phenomenon that the business sciences call corporate or institutional culture, functioning as the establisher of the community, are treated in the economic sciences as issues of efficiency, connected to transaction costs (Coase 2004).

This branch of economics is called organization theory, according to which the birth of a corporation is explained by the fact that in this form of organization production is more efficient, that is, more economic. In economics, this question arose from the Smithian theory of the invisible hand: why is that mechanism insufficient to account for the organizational order of the economy, why are formal institutions apart from the market necessary? The essence of non-market organizations is that several co operational mechanisms are in effect, which poses the problem for economics why price mechanism is not sufficient for the efficient operation of the economy.

The answer goes beyond the notion of efficiency in the strict sense. According to the thesis of organization theory, an organization is a network of mutual accordance, agreements, and contracts among its individual members (Milgram-Roberts 2005). An organization, thus, implies a contracting individual who voluntarily accepts the contractual obligations of the organization. It means that the contracting person is necessarily free, as a contract is impossible in a world in which any form of slavery exists. As a consequence, the modern organization theory takes a world with division of labor and a socio-economic structure where values are unconditionally in operation for granted.

As it was repeatedly pointed out, this does not hold for every era. In fact, it is only the period of the 20th and the 21st centuries that managed to guarantee its technological and economic conditions. Naturally, in each and every era there existed organizations that could meet these criteria and there were those that could not. The alliance of the kings to conquer Troy was an example for the former, while the Roman household based on slave labor portrays the latter.

The other fundamental element of the contract-based organizational model is that it implies hierarchy, not just a horizontal organization. In fact, a contract can be both vertical and horizontal. What we mean by a contract is when the members of a population invest the state with power, giving some of their own, unal-

inable rights to a public body that seems to be able to represent them more efficiently. If this latter obligation is not realized, the people can take these rights back.

At the same time, there are vertical contracts as well, by which the people make an agreement with the leader of the community. As the Bible describes, God makes a contract with his people, then with the whole world, which he strengthens several times. One such occasion is Noah, but so is Jesus Christ, testimony of the contract and the promise. The leader engages himself to be just and to avoid tyranny. In this contractual form, justice and the activity for the benefit of the community are put into the center. The necessary hierarchy serves justice in the contract, whose basis is trust.

The interpretation of the contracts does not depend simply on personal preference. It is not that the citizen can read the contract both vertically and horizontally, but that it helps to enforce the philosophical laws required for the authority. A vertical contract is particularly important from this point of view, as it demonstrates that hierarchy can be just, whose potential guarantee is the contract itself.

To stick with the ancient example, Odysseus's pigman, Eumaeus, when not recognizing his master, answer this to the question of what happened to Odysseus:

"Yonder then hath he perished, but for his friends naught is ordained but care, for all, but for me in chief. For never again shall I find a lord so gentle, how far so ever I may go, not though again I attain unto the house of my father and my mother, where at first I was born, and they nourished me themselves and with their own hands they reared me. Nor henceforth it is not for these that I sorrow so much, though I long to behold them with mine eyes in mine own country..." (Homer 14).

From this excerpt the reader finds out that Eumaeus appreciates Odysseus's household even more than his own land, since in the former he sees his living guaranteed. The reason for this is his trust that manager of the household Odysseus takes care of those in his service. The caretaking is guaranteed by the particular, hierarchical contract between the pigman and his master. To be able to keep his contractual promise is why Odysseus fights to return home. For Homer, the basic motif is not the adherence to one's homeland, as it was pointed to by the esthetic literature. Eumaeus, contrary to Odysseus, has the chance to go home, but he does not want to. The two of them are bound by the contract in an economic unit.

The ancient riddle is solved by the new world order. The 21st century possesses the technology which is able to bring a long term harmony between the values. Its theoretical basis is the 20th century American idealism, the essence of which is the unconditional pursuit of the values. This idealism sustained America's role as a world power, without which the entire history of the 20th century is incomprehensible. The Hungarian neoliberalism failed to see this and stroked to the view that world political process are to be understood through the national interests of the US, and not vice versa. Neoliberalism explained the course of history as a series of fights among nationalisms, lacking to see the power and relevance of a view based on internationalism and a quest to help the progress of other nations.

The problem with the Hungarian contract-based approach was, on the one hand, that it failed to recognize the socio-economic conditions of being eligible as a contracting party, and, on the other hand, that it emphasized only the horizontal aspect of the contract, not its vertical, ignoring the responsibility of managerial authority. The freedom of being in a contract does not mean that it can be withdrawn any time, but that it is the contract that guarantees the freedom: sometimes it protects us from ourselves and obliges that leader to follow its laws, harmonizing freedom and responsibility. The source of the world view is tradition, whose constant application establishes the historical processes. In this sense, tradition is determined by the requirements of the future, based on which the right elements of the tradition have to be appreciated, while the bad ones eliminated. As a consequence, the Western conservatism has never wanted to restore the past, but it has supported the approach of taking the present demands into consideration.

5.2. Transaction costs

Organization theory explains the need for the contract-based establishment of formal organizations with transaction costs, setting a requirement of efficiency that organizational cooperation have to make the production more economic. To understand this, first the notion of transaction costs have to be defined. The transaction is the flow of products or services among individuals (Milgrom-Roberts 2005). The transaction adapts to the given socio-economic institutional system. It does not exist on its own, but within certain institutional frames. The cost of the transaction is the sum required for the maintenance of the institution (Milgrom-Roberts 2005).

Transaction costs include the expenses of the operation of the given institution, that is, the sum paid on the coordination and the motivation of the institutional

workers. In the market, transaction costs mean tax, as without the state there is no market and without public frames there is no guarantee for the validity and force of the contract. The expenses of the lawyers and notaries are also parts of transaction costs. In short, transaction costs are the conditions and the expenses of maintaining the cooperation, which means that there is no economic system that does not have transaction costs. To sustain the hierarchy requires resources, which are reflected in transaction costs.

This is important to note because in the Hungarian economic sciences often appears the idea that the market is efficient if transaction costs are absent. This theory is linked to Coase, even though he has never declared it explicitly. It was George Stigler, when analyzing Coase's theory that made this affirmation (Stigler 1968). In order to enforce justice, an intuition with the task of bringing the law in operation is needed. Plato imagined this to be done by philosophers, while others invested different institutions with this power, but none of the classical thinkers considered it unnecessary. The elimination of transaction costs would mean the elimination of justice, leading to anarchy, which is why this thesis is unacceptable. It is another, separate issue that in the operation of the hierarchy efficiency must be the principle, which organization theory interprets as the minimization of transaction costs. This, however, is a tautology, as what is based on justice is necessarily efficient, and if it is not just, nor is it efficient. Efficiency means the efficient application of justice, which is why in the new world order technology is used for the sake of justice, as reflected by the current economic crisis. A new form of property is getting shaped and a law-based system is in global extension.

5.2.1. The types of transaction costs

Based on the diverse tasks of an institution, transaction costs can be divided into two main types of costs: those of coordination and those of motivation. Coordination costs imply the expenses of the management of the institution's division of labor. In this case, transaction costs mean that every member of the institution is informed about the institution's project and his or her share in the tasks, thus, coordination costs are information costs basically. It depends on the form and the institution of the coordination, which are determined by the technology and the production culture of the institution. This is the planning of stability and mobility in the different periods of a life time, for which the century-old program of the liberation of work is indispensable.

Within the frames of Taylorism, the highest production level elaborated by the engineer and reachable by the worker is part of the production project, and coordination costs come from the different forms and tools of the engineer's orders

(loudspeaker, personal order, etc.). In Fordism, on the other hand, coordination costs mean the expenses of managing the speed of the assembly line. This is why technological costs and coordination costs cannot be separated, and even a strict sticking to the idea would be wrong (Milgrom-Roberts 2005). Every technology, as it conveys values, is a means of coordination as well.

Coordination costs can be considered to be the expenses of recording and monitoring. Each and every socio-economic organization needs to have constant and precise data on the activities of its workers, based on which it can form its production plan. Recording and monitoring are also technology-based, so their expenses are the costs of processing the gathered information. The technology determined by the values of security, freedom, democracy, and welfare are applied in the operation of information technology.

In ancient times, recording and monitoring were served by family relations and naming, which helped to categorize the members of the society and to influence them in their activities like in sexual habits. It was a significant advance in human history when, in order to avoid incest, parental and sibling relations were recorded. Later, in the ancient Mediterranean societies it was the civil right that functioned as the tool of recording and monitoring, which in the Middle Ages became the congregation and the establishment of the ecclesiastic institutional order. The medieval Europe is unimaginable without the ecclesiastical infrastructure using written records. Due to the customs of baptism and burial, the European population was recorded in a uniform system. It was the Renaissance when the state started to take over this function, primarily by taxation. In this case, tax had also an institutional function, because it made possible that the members of the society could be recorded in the unit which was felt important within the given economic system.

The modern industrialization, with the appearance of a different coordination technology, required radically different modes of recording and monitoring. The technology was built mainly on the machine and the division of labor, and it was the concrete production technology that determined the position of the given worker within the production and the information to be given to the manager of the production. The size of the machine defined the size of the corporation that was still manageable, which was a rather serious constraint on the growth of the corporations. The management of a too large corporation was unsolvable with the 19th century technology, which gave rise to numerous problems. On the one hand, the worker could easily fall out of the information web due to his/her achievement or other problems related him/her like health or training issues, which might not have been thought of by the management. On the other hand,

the increase in the extension or precision of monitoring might have led to such a serious rise in costs that would have decreased the corporation's efficiency.

From the same recognition was born the demand for a developed informatics, to mechanize recording and monitoring, even in the 19th century. British mathematician Charles Babbage wrote his 1832 book *The Economy of Machinery and Manufactures* with the goal of "indicating the effects and benefits arising from the use of tools and machines, finding a categorization for the use of machines, and drafting the reasons and consequences of using machines that make the worker's skill and force unnecessary." In the frames of this work, Babbage develops the theoretical bases of the calculator, which he did not manage to produce of course for the absence of the necessary technology (Babbage 1832).

The next wave in the progress of informatics is connected the late 19th, early 20th century, when the first calculators appeared. Their spread and development were reactions to the needs of corporate institutions and public administration. In the 20th century, the New Deal, whose program centered around reforming social security, has a special significance also from this perspective. This reform is relevant not only as the extension of caretaking, but also for the dimensions of the technological systems it utilized. The punch card system was the solution, which by the way made IBM into a giant corporation.

The progress of information tools helped to give a solution for the conflict between coordination costs and the need for recording. The 20th century production culture required the individualized information. Considering either Taylorism, or Fordism, or any other later technologies, it is obvious that the monitoring of the economic figure was a condition of the efficient operation. At the same time, the costs for such technologies were so high in the first half or two thirds of the 20th century that it endangered freedom.

This is Orwell's era, the advancing of which possible only on new technological grounds, which was provided by the mass production of personal computers and other informatics tools. Thanks to this, the recording and monitoring of the corporation and the entire economy became more and more economic and available, which decreased the coordination costs significantly.

Hayek's reasoning, according to which the advantage of the market lies in its impersonal mechanism, is not precise exactly for this. In his *Road to Serfdom* (1991) and his *Fatal Conceit* (1992), Hayek states that the socialist theory is necessarily flawed, as it implies that the entire economic system can be monitored and managed without exploitation and oppression. In his view, this is an impossible enterprise, which is why one has to accept the dependence on and

exploitation of the market as a necessary byproduct of production. Hayek's criticism of the contemporary systems based on giant machines was perfectly right, as it is true that then only two alternatives seemed realistic: oppression or market-dependence, excessive public property or excessive private property. It was wrong, on the other hand, for not seeing the wake of the technological shift, that the progress of microelectronics will make data-compression and transaction cost reduction possible.

Summarizing, the values of security, freedom, democracy, and welfare within the social system get reconciled in the 21st century. All this was possible only in the new world order, as previously, like in the ideology of the Enlightenment, these values could be present at the expense of the others. The debate between Leibniz and Locke in the early 18th century is a clear example of this, since the former put the emphasis on freedom, while the latter on security. After 300 years, it is transparent that their views complete, not exclude each other.

5.2.2. Motivation costs

The other component of transaction costs is connected to motivation. Motivation costs have two parts, one of which is related to asymmetric or incomplete information, when the parties engaged in the transaction lack certain necessary pieces of information (Milgrom-Roberts 2005).

The classical example for an information gap is when a customer wants to buy a second hand car and does not all the necessary information about the product. There are two types of situations depending on the two possible behaviors of the salesman. In one case, the seller tells the truth, giving precise details on the condition of the automobile. In the other case, however, he is driven by the intention of selling the car, so he lies and deceives the customer. If the customer is uncertain about which type he/she is dealing with, fearing to be misled, he/she hires an expert. The expenses paid on the expert will be part of the transaction costs. As a consequence, the honest seller will come off bad, because the price the customer will be able to pay on the product has become lower, as veracity expenses are already paid in this case too.

Therefore, it is the interest of the honest sellers to establish an organization, in the frames of which they bind themselves to veracity. The money paid on the operation of the organization becomes part of the transaction costs, but on the long run it is clearly worth setting up such an institution. In the case of car purchase, a possible solution is the car dealer. In Hungary, buying a used car has two very distinct traditions: those in search of cheap categories, buy the car by private sale, from strangers, taking the risk of the unknown. The other solution is

the car dealer that offers complex services and a production culture and sells on a reasonable price.

The other typical example appearing in the literature for asymmetric information, besides car purchase, is the observation of the differences between the production cultures of the workers. If we assume the existence of two types of workers (the good and the bad) in a firm, it is vital that the manager of the production can distinguish these two types of the workforce. The asymmetric information begins with the manager's recognition of the two types. A precondition of being able to distinguish the achieving and the non-achieving employee is that the employer himself/herself achieves and expects achievement.

This is far from being self-evident. In fact, the Kádár era was characterized by the great number of managers who themselves were reluctant to achieve, accepting mediocrity. For them, the notion of asymmetric information did not exist, because they felt that it was sufficient to monitor the average. It was only the Western success-oriented production culture that refused to bear this kind of managerial mentality and that found it important to form an institutional order in which achievers and non-achievers were separated.

The next step of bringing an end to asymmetric information is the following: for the elimination of a recognized inequality, such a system has to be established whose recording and monitoring facilitate the community of the achievers in a way that they can divide themselves from the non-achieving colleagues. In the production process based mostly on physical labor, it is relatively easy to execute, as the achievement is measurable by the number of the physical pieces of work. If, however, the mental effort is more crucial, a new solution has to be found. In such a case, it is specifically retrograde to apply the measures used for physical labor. Scientific achievement cannot be evaluated on the basis of the working hours spent at the university, even though for joint thinking, physical presence is also needed. For the disclosure of asymmetric information, a new institutional form is required, which might be for example a production process based on small groups or team work, in which the members keep monitoring each other's achievement. The expenses of the maintenance and management of the team work are the motivation costs. For the efficient operation of the team work, it is not enough to divide the workers into groups of 4 or 5, but it is also necessary to form such teams whose members are able to produce a high profile work together. The different motivations of the members of a group make team work impossible.

This is what distinguishes the Hungarian and the Western corporate management practices. Our managers consciously put together the good and the bad, the

achiever and the non-achiever in one team, which resulted in the fact that the mediocre worker constantly pulled the high quality worker back. He/she felt it was his/her expected task to restrict achievement “for the sake of the community,” keeping the quality of the work low. It must be added that this was the fault of the mediocre manager too. Clearly, such attitude contributed significantly to the fall of this economic system. With the system change, the situation did not alter too much, only in the fact that the multinationals did not bear this production culture, instead of which they turned to the Western model based on the achiever’s culture. As Peter Drucker pointed out, in the knowledge-based economy it is even less true that a talented employee can be replaced by more mediocre. For the sake of modernizing our national economy, the adoption of this mentality in small and medium businesses is crucial.

In the meetings, every member of the team is given the opportunity to share the results, forms, and the production culture of his/her activity. The efficient management and the enforcement of justice within the team are parts of the transaction costs. The well known motto of the Lego Company can be fit here: “Only the Best is good enough.”

5.2.3. Costs of imperfect engagement

The organizational form necessary for perceiving higher quality achievement leads to the other type of motivation costs, which are the costs of imperfect engagement. The costs of imperfect engagement refer to the expenses spent on the dismissal of the non-achieving worker or the search for such a position which fits his/her abilities more. Imperfect engagement poses a problem because in this case the manager cannot communicate authentically and determinately to his/her employees that he/she upholds the authority of morality.

It was particularly characteristic of the Hungarian corporate practices of the past 20 years, when managers were advocating the need for frugality, while they themselves were spending fortunes on luxuries. The view that the leadership lacks moral-cultural content left a pronouncedly severe impact on the mentality of the national corporate management, depriving it from employee trust.

Barnard’s (1968) principle that the managers of the corporation have to have wide moral bases is not negotiable because this is what establishes trust toward them. Imperfect engagement can move toward perfect engagement, if such a corporate form and technology are chosen that serve morality. This is the precondition of corporate development, which can be considered to be an expense, but it is such an expense that cannot be saved.

Perfect engagement solves the problem of the hidden information as well, because it guarantees that only those workers remain at the company who wants to achieve high quality results at his/her field. Furthermore, it decreases coordination costs, as everyone will be interested in exploring one's field of expertise and in participating in the management of the company. Perfect engagement is the corporate culture, that is, the acceptance of corporation's mission and the operation of the necessary trust. The theory of transaction costs within organization theory is the economics of trust. This trust can work only if workers trust in morality and moral order, which they believe their leaders follow as well

What Charles Barnard noted about the necessity of moral foundations in managers can be supported from yet another aspect. Perfect engagement can be imagined only on the grounds of morality. In the knowledge-based economy, this is a requirement for every organization, and what is more, the technology to enforce it is already at hand. At the same time, the economic historical process that organizational forms developed from ancient times to reach the perfect is a further evidence.

In the new world order, the quality of motivation costs changed from their previous form, which modification is worth analyzing through the lenses of psychology. It points not only to the anachronism of the 19th and early 20th century idea of the corporation, but it also helps to understand how the Western corporate model becomes the means of enforcing a value system.

Labor relations can be divided into two separate but closely related components from the individual's point of view: to the relation between the employee and the employing company and to the relation between the employee and his/her work.

As far as the relation between the employee and the employing company is concerned, one of its chief aspects is the issue of trust, as previously mentioned. The presence of trust in the behavior of the workers does not mean simply that the parties trust each other, but that they consider this situation as being superior in quality to the one without trust. This latter is relevant because the employees will expect behavioral norms and patterns based on trust from their colleagues, and their perception of the working environment will be determined by the experience of trust. They will select and interpret the external information about the firm and their achievement through the value system centered around trust, that is, the whole community and their work will be evaluated on those grounds.

As the reason for the deformed adoption of Western institutional models in the past 20 years, a manifestation of which is the quadruple difference in the pro-

ductivity of our national and multinational corporations, scientists point to the absence of an adequate culture, attitudes, norms, behavioral patterns, based on an adequate value system. The institutions cannot achieve their goals without the informal, cultural background of their operation. The indicator of the tensions between culture and the institution is the individual's small degree (if any) of trust for the institution. Decision makers when establishing certain formal institutions takes this lack of trust granted, on which they automatically build. Our laws on taxation or employment burdens, for example, determine a characteristically high number of prohibitions, precisely defining for companies and individuals what and when and how to act, leaving no space for freedom.

In Hungary, the problematic relation between the individual and the institution is strongly determined by the society's historical experiences. According to the tradition dominating the past 20 years, the process is interpreted in a way that the formal institutions established on the grounds of external impulses are based on a culture and value system more or less different from the national. The adoption of foreign value systems has always led to positive or negative, historically relevant national shocks, such as revolutions, wars of independence, system change, etc. In the mirror of these experiences, the relation of the individual and the institution is predestined so that the individual is in the mercy of the latter from birth. The fear of existence, on which this defenselessness is based, breaks forth with elemental power every time an individual gets into contact with an institution like in the case of employment. From the employee's perspective, the manager of the company is the lord of life and death, who determines, through the salary, the employee's position and power within the corporation, along with his/her consumption, and who, with a dismissal, can punish the worker with the total insecurity of living. This view is instead of seeing the manager as a partner who now holds a managerial position but works together with the employee toward the development of new technologies and the more efficient operation of the corporation, in order to reach the common corporate goal while upholding the common communal value system. For the employee, market competition is not the means of finding and rising above oneself, by fulfilling one's talent, but it is the chaos itself and psychic burden. The sense of defenselessness, fear of existence, and frustration were intensified by the effects of the economic transformation connected to the system change. The consequences of the situation, mirrored by the population's all the more impaired health conditions (Kopp 2007, Kopp-Pikó 2006), and the divergence of the national labor culture from the global trends (Hofmeister-Tóth et al. 2005, Neumann-Hofmeister-Tóth-Kopp 2008, V. Komlósi et al. 2006, Füstös et al. 2009), are clearly grave and distressing.

Research dedicated to explore the levels of managers/middle managers and multinational corporations show that employees characteristically do not care about their self-image and life plan, in short, they do not make conscious decisions and have no perspective about how to contribute to the value forming processes of the corporation (Füstös et al. 2009). If asked, they mention salary as the most important element, but as the motivating tool they miss the most, the oral appreciation and encouragement of their bosses are emphasized. The foreign managers at the Hungarian subsidiaries of multinationals consider the lack or low level of cooperation to be the most severe problem, claiming that the Hungarians avoid straight and honest discussions at the meetings and choose to solve their work issues on informal forums instead of utilizing the formal opportunities (Füstös et al. 2009, Hofmeister-Tóth et al. 2005).

It is quite probable that the situation is even worse in the case of medium and small enterprises. The investigations paint the picture of a quite contradictory employee perception, in which the defenseless individual, in the absence of adequate tools, fights passively against the corporation, but avoids confrontation for the sake of his/her own survival. The foundations of this perception have historical, cultural, and institutional features originating in the 19th century classical capitalist model. Exactly because of this, it would be a theoretical mistake and a factor stunting advance, if the economic thinking accepted this deformed perception, identifying on such grounds the 21st century corporate and economic model with the 19th century corporate and economic model.

Psychological research results justify that there is no unbridgable conflict between the desires of the individual and the aims of the community. Abraham Maslow pointed out that after reaching a high level in satisfying one's basic needs, the individual is driven by values (in his terminology, "transhuman values") originating from but going beyond oneself, which reconcile individual efforts and communal progress (Maslow 2005). This is a natural process in the sense that the individual satisfies his/her own needs and transhuman desires, simultaneously with the fulfillment of communal interests. Along this line of reasoning is the Freudian theory falsified, as it claims that the individual's excessive personal demands and his/her propensity for avoiding work will destroy the profit efforts of the corporation. In psychology, it became clear already in the mid-20th century that individual and corporate goals can be harmonized, and what is more, the search for this balance is a precondition of the sustained development. This view is brought to fullness in the late 20th century corporate model.

“Until now, it has been believed that the interests of civilization and the interests of the individual exclude each other. What is good for the individual, must be bad for civilization. If, for example, the individual is selfish, has no constraint on his/her passions and instincts, the society will fall... Today, however, we have a new kind of view of higher opportunities, of a healthy society”² (Maslow 2005).

In Maslow’s hierarchy of needs, or, in its more popular name, Maslow’s pyramid, the satisfaction of lower level needs leads only to content, not to the sense of happiness. The higher level one reaches on the pyramid, the happier one feels, but this is still bound to the consumption of external goods or to social interactions. On the top of the pyramid, the sense of happiness is the highest, which is already independent from the external circumstances. In such a state of mind, the employee perceives what the goals of the corporation are, how he/she can contribute to this, what position he/she can have within the company. On this lies the other dimension of labor relations, the relation between the employee and his/her work.

As opposed to the classical capitalist view on humans, the employee chooses to work not only to meet his/her physiological and security needs with the money earned. But, through his/her job, the employee is constantly in connection with the top of the pyramid, that is, with the need of self-actualization, to use the words of Maslow’s model. If work could not be considered as a means of self-actualization, within the market frames it would be alienated from people’s inner identity: the employee would measure his/her value and position within the community exclusively according to his/her success on the market, not on his/her own personality, capacity, and life plan. The objectification of the personality (Fromm 1994, Kasser 2002) would result in a severe efficiency problem for the corporation, as the individual would not be engaged in the activity, in which his/her personal abilities makes him/her the best and in which he/she finds the most pleasure and a life plan, but only in tasks favored and determined by market demands.

The relation between the employee and his/her work is captured in the perfect experience of “flow,” as identified by a Hungarian-American psychologist (Csíkszentmihályi 1997, 2008). According to his observations, this sensation is coupled with the satisfaction of the needs on the uppermost level. It occurs when the individual follows clearly defined goals, engages oneself fully in the activity, which gives immediate and unambiguous responses of success. The problems involved in the activity are possible to solve but they require efforts.

² Translated to English from the Hungarian translation of the original text

The individual gives up his/her self-awareness, loses the sense of time, concentrates on the present, without the fear of failure and the prediction of reward. The activity itself is the reward. According to Csíkszentmihályi, people dedicate great amounts of energy on searching for happiness, when all they have to do is to give themselves to the sensation of flow. Flow does not refer to the content of the work done, but to the relation between the individual and his/her work on the road to self-actualization, when the worker is happy and creative. It is vital to note that the precondition of flow, the employee's perfect concentration on the working activity, can be met only if the relation between the employee and the employer is settled. From this comes the real significance of the notion of flow: it unites the employee, the employer, and the concrete working process, making all this apprehensible.

This is how work becomes the means of self-expression: the employee is engaged in an activity consented by his/her internal intentions and motivations, in which he/she surpasses the others, and by which he/she is able to contribute most to the progress of the community, which is how he/she is able to meet his/her own destiny and find happiness.

With the description of the diverse periods of the corporation's development, especially with the contrast of the corporate models of the 20th century and classical capitalism, we aimed to demonstrate that by the 20th century the corporation has become part of the global, law-based property form. It is not the goal of the corporation to uphold the provincial production culture and to eliminate the opportunities of progress within a community, as in such efforts it would eliminate its own community too. The opposite trend of concentrating only on the fight for the welfare and freedom of the corporation's owner is also an insufficient way to explain the existence of a corporation. This latter pattern was characteristic of the classical capitalist corporate model, in which the management of the corporation was driven by the single goal of profit maximization. In the 20th century, however, the Western corporation comes to be an institution of value adaptation, in which producers adapt to the demands of the era together. It is necessary to call the attention to such a view shift, because the Hungarian corporate theory and practice explain the Western development still on the basis of the 19th century theory and practice, which strongly hinders our progress. The 21st century requirements can be met only if the priority of law-based property is accepted.

6. Bibliography

- BARNARD, CHESTER 1968. The Functions of the Executive. Harvard University Press, Cambridge
- BABBAGE, CHARLES 1832. The Economy of Machinery and Manufactures. <http://www.gutenberg.org/dirs/etext03/cnmmm11.txt>, date of the last download: november 24th, 2009
- CHIKÁN, ATTILA 2005. Vállalatgazdaságtan, Aula Kiadó, Budapest
- CHIKÁN, ATTILA – CZAKÓ, ERZSÉBET (szerk.) 2009. Versenyben a világgal : Vállalataink versenyképessége az új évezred küszöbén. Akadémiai Kiadó, Budapest
- COASE, RONALD H. 2004. A vállalat, a piac és a jog, Nemzeti Tankönyvkiadó, Budapest
- CSÍKSZENTMIHÁLYI, MIHÁLY 1997. Flow : Az áramlat : A tökéletes élmény pszichológiája, Akadémiai Kiadó, Budapest
- CSÍKSZENTMIHÁLYI, MIHÁLY 2008. A fejlődés útjai : A harmadik évezred pszichológiája - A Flow folytatása, Nyitott Könyv Kiadó, Budapest
- FROMM, ERICH 1994. Birtokolni vagy létezni. Akadémiai Kiadó, Budapest
- FÜSTÖS, LÁSZLÓ – HANKISS, ELEMÉR – JENSEN, JODY – MISZLIVETZ, FERENC. – POGÁTSA, ZOLTÁN. 2009. A magyar munkakultúra globális környezetben, avagy „Ki lehet-e találni” a magyar munkaerő kultúráját? – Kutatási jelentés, Savaria University Press, Szombathely, 2009
- FUKUYAMA, FRANCIS 1997. Bizalom : A társadalmi erények és a jólét megteremtése. Európa Kiadó, Budapest
- FUKUYAMA, FRANCIS 2005. Államépítés : Kormányzás és világrend a 21. században. Századvég, Budapest
- HAYEK, FRIEDRICH 1991. Út a szolgasághoz. Közgazdasági és Jogi Könyvkiadó, Budapest
- HAYEK, FRIEDRICH 1992. A végzetes önhittség : A szocializmus tévedései, Tankönyvkiadó, Budapest
- HOFMEISTER-TÓTH, ÁGNES - BRÜCK, FRANZ – KAINZBAUER, ARNOLD – NEULINGER, ÁGNES 2005. Kulturális értékek, kulturális dimenziók és kulturális standardok : Empirikus vizsgálat a bécsi és a budapesti menedzserek körében. Vezetéstudomány, 36/2.
- HOMER. 8th century BC. Odysseia, <http://gutenkarte.org/section/1728/14>, date of the last download: november 24th, 2009
- HUNTINGTON SAMUEL 2005. Kik vagyunk mi - Az amerikai nemzeti identitás dilemmái. Európa Kiadó, Budapest

- HUNTINGTON SAMUEL 2001. A civilizációk összeesése és a világrend kialakulása. Európa Kiadó, Budapest
- KASSER, TIM 2002. The High Price of Materialism. MIT Press, Cambridge
- KOPP, MÁRIA – PIKÓ, BETTINA 2006. Az egészséggel kapcsolatos életminőség pszichológiai, szociológiai és kulturális dimenziói. In: Kopp M. - Kovács M. (szerk.): A Magyar népesség életminősége az ezredfordulón, Semmelweis Kiadó, Budapest, 10-19. old.
- KOPP, MÁRIA 2007. Krónikus stressz-állapot, depresszió, egészségkárosodás, http://www.depressziostop.hu/kronikus_stressz-allapot_depresszio_egeszsegkarosodas.pdf, date of the last download: november 24th, 2009
- MARX, KARL 1967. A tőke. A politikai gazdaságtan bírálata. Kossuth Könyvkiadó, Budapest
- MASLOW, ABRAHAM 2005. Amit nem tudtunk eddig az emberi természetről. In: V. Komlósi Annamária (szerk.): Bevezetés a transzperszonális pszichológiába - válogatás Abraham Maslow, Roberto Assagioli és Ken Wilber írásaiból, Ursus Libris Kiadó, Budapest
- MILGRAM, PAUL –ROBERTS, JOHN 2005. Közgazdaságtan, szervezetelmélet és vállalatirányítás. Nemzeti Tankönyvkiadó, Budapest
- NEUMANN-BÓDI, ESZTER - HOFMEISTER-TÓTH, ÁGNES - KOPP, MÁRIA 2008. Kulturális értékek vizsgálata a magyar társadalomban Hofstede kulturális dimenziói alapján. In: Kopp M. (szerk.): Magyar lelkiállapot 2008: Esélyerősítés és életminőség a mai magyar társadalomban, Semmelweis Kiadó, Budapest
- SCHUMPETER, JOHN ALOIS 1989. Business cycles : a theoretical, historical, and statistical analysis of the capitalist process. Porcupine Press, Philadelphia
- STIGLER, GEORGE J. 1968. The organization of industry. University of Chicago Press, Chicago
- SZÁNTÓ, ZOLTÁN 1997. MEGBÍZÓK, MEGBÍZOTTAK ÉS KLIENSEK : VÁZLAT A KORRUPCIÓ FOGALMÁRÓL, SZOCIOLÓGIAI SZEMLE, 1997/4.
- TŐKEI, FERENC 1988. A társadalmi formák marxi elméletéhez : Tanulmányok. Kossuth Kiadó, Budapest
- VEBLEN, THORSTEIN 1962. Az üzleti vállalkozás elmélete. Közgazdasági és Jogi Könyvkiadó, Budapest
- V. KOMLÓSI, ANNAMÁRIA – RÓZSA, SÁNDOR – MÓRICZ, ÉVA 2006. Az Aspirációs index hazai alkalmazásával szerzett tapasztalatok. Magyar Pszichológiai Szemle. 61. 2. 237-250.
- WEBER, MAX 1995. A protestáns etika és a kapitalizmus szelleme. Cserépfalvi Kiadó, Budapest

BERG Working Paper Series on Government and Growth

- 1 Mikko **Puhakka** and Jennifer P. **Wissink**, Multiple Equilibria and Coordination Failure in Cournot Competition, December 1993
- 2 Matthias **Wrede**, Steuerhinterziehung und endogenes Wachstum, December 1993
- 3 Mikko **Puhakka**, Borrowing Constraints and the Limits of Fiscal Policies, May 1994
- 4 Gerhard **Illing**, Indexierung der Staatsschuld und die Glaubwürdigkeit der Zentralbank in einer Währungsunion, June 1994
- 5 Bernd **Hayo**, Testing Wagner`s Law for Germany from 1960 to 1993, July 1994
- 6 Peter **Meister** and Heinz-Dieter **Wenzel**, Budgetfinanzierung in einem föderalen System, October 1994
- 7 Bernd **Hayo** and Matthias **Wrede**, Fiscal Policy in a Keynesian Model of a Closed Monetary Union, October 1994
- 8 Michael **Betten**, Heinz-Dieter **Wenzel**, and Matthias **Wrede**, Why Income Taxation Need Not Harm Growth, October 1994
- 9 Heinz-Dieter **Wenzel** (Editor), Problems and Perspectives of the Transformation Process in Eastern Europe, August 1995
- 10 Gerhard **Illing**, Arbeitslosigkeit aus Sicht der neuen Keynesianischen Makroökonomie, September 1995
- 11 Matthias **Wrede**, Vertical and horizontal tax competition: Will uncoordinated Leviathans end up on the wrong side of the Laffer curve? December 1995
- 12 Heinz-Dieter **Wenzel** and Bernd **Hayo**, Are the fiscal Flows of the European Union Budget explainable by Distributional Criteria? June 1996
- 13 Natascha **Kuhn**, Finanzausgleich in Estland: Analyse der bestehenden Struktur und Überlegungen für eine Reform, June 1996
- 14 Heinz-Dieter **Wenzel**, Wirtschaftliche Entwicklungsperspektiven Turkmenistans, July 1996
- 15 Matthias **Wrede**, Öffentliche Verschuldung in einem föderalen Staat; Stabilität, vertikale Zuweisungen und Verschuldungsgrenzen, August 1996
- 16 Matthias **Wrede**, Shared Tax Sources and Public Expenditures, December 1996

- 17 Heinz-Dieter **Wenzel** and Bernd **Hayo**, Budget and Financial Planning in Germany, February 1997
- 18 Heinz-Dieter **Wenzel**, Turkmenistan: Die ökonomische Situation und Perspektiven wirtschaftlicher Entwicklung, February 1997
- 19 Michael **Nusser**, Lohnstückkosten und internationale Wettbewerbsfähigkeit: Eine kritische Würdigung, April 1997
- 20 Matthias **Wrede**, The Competition and Federalism - The Underprovision of Local Public Goods, September 1997
- 21 Matthias **Wrede**, Spillovers, Tax Competition, and Tax Earmarking, September 1997
- 22 Manfred **Dauses**, Arsène **Verny**, Jiri **Zemánek**, Allgemeine Methodik der Rechtsangleichung an das EU-Recht am Beispiel der Tschechischen Republik, September 1997
- 23 Niklas **Oldiges**, Lohnt sich der Blick über den Atlantik? Neue Perspektiven für die aktuelle Reformdiskussion an deutschen Hochschulen, February 1998
- 24 Matthias **Wrede**, Global Environmental Problems and Actions Taken by Coalitions, May 1998
- 25 Alfred **Maußner**, Außengeld in berechenbaren Konjunkturmodellen – Modellstrukturen und numerische Eigenschaften, June 1998
- 26 Michael **Nusser**, The Implications of Innovations and Wage Structure Rigidity on Economic Growth and Unemployment: A Schumpetrian Approach to Endogenous Growth Theory, October 1998
- 27 Matthias **Wrede**, Pareto Efficiency of the Pay-as-you-go Pension System in a Three-Period-OLG Modell, December 1998
- 28 Michael **Nusser**, The Implications of Wage Structure Rigidity on Human Capital Accumulation, Economic Growth and Unemployment: A Schumpeterian Approach to Endogenous Growth Theory, March 1999
- 29 Volker **Treier**, Unemployment in Reforming Countries: Causes, Fiscal Impacts and the Success of Transformation, July 1999
- 30 Matthias **Wrede**, A Note on Reliefs for Traveling Expenses to Work, July 1999
- 31 Andreas **Billmeier**, The Early Years of Inflation Targeting – Review and Outlook –, August 1999
- 32 Jana **Kremer**, Arbeitslosigkeit und Steuerpolitik, August 1999

- 33 Matthias **Wrede**, Mobility and Reliefs for Traveling Expenses to Work, September 1999
- 34 Heinz-Dieter **Wenzel** (Herausgeber), Aktuelle Fragen der Finanzwissenschaft, February 2000
- 35 Michael **Betten**, Household Size and Household Utility in Intertemporal Choice, April 2000
- 36 Volker **Treier**, Steuerwettbewerb in Mittel- und Osteuropa: Eine Einschätzung anhand der Messung effektiver Grenzsteuersätze, April 2001
- 37 Jörg **Lackenbauer** und Heinz-Dieter **Wenzel**, Zum Stand von Transformations- und EU-Beitrittsprozess in Mittel- und Osteuropa – eine komparative Analyse, May 2001
- 38 Bernd **Hayo** und Matthias **Wrede**, Fiscal Equalisation: Principles and an Application to the European Union, December 2001
- 39 Irena Dh. **Bogdani**, Public Expenditure Planning in Albania, August 2002
- 40 Tineke **Haensgen**, Das Kyoto Protokoll: Eine ökonomische Analyse unter besonderer Berücksichtigung der flexiblen Mechanismen, August 2002
- 41 Arben **Malaj** and Fatmir **Mema**, Strategic Privatisation, its Achievements and Challenges, Januar 2003
- 42 Borbála **Szüle** 2003, Inside financial conglomerates, Effects in the Hungarian pension fund market, January 2003
- 43 Heinz-Dieter **Wenzel** und Stefan **Hopp** (Herausgeber), Seminar Volume of the Second European Doctoral Seminar (EDS), February 2003
- 44 Nicolas Henrik **Schwarze**, Ein Modell für Finanzkrisen bei Moral Hazard und Überinvestition, April 2003
- 45 Holger **Kächelein**, Fiscal Competition on the Local Level – May commuting be a source of fiscal crises?, April 2003
- 46 Sibylle **Wagener**, Fiskalischer Föderalismus – Theoretische Grundlagen und Studie Ungarns, August 2003
- 47 Stefan **Hopp**, J.-B. Say's 1803 *Treatise* and the Coordination of Economic Activity, July 2004
- 48 Julia **Bersch**, AK-Modell mit Staatsverschuldung und fixer Defizitquote, July 2004
- 49 Elke **Thiel**, European Integration of Albania: Economic Aspects, November 2004

- 50 Heinz-Dieter **Wenzel**, Jörg **Lackenbauer**, and Klaus J. **Brösamle**, Public Debt and the Future of the EU's Stability and Growth Pact, December 2004
- 51 Holger **Kächelein**, Capital Tax Competition and Partial Cooperation: Welfare Enhancing or not? December 2004
- 52 Kurt A. **Hafner**, Agglomeration, Migration and Tax Competition, January 2005
- 53 Felix **Stübben**, Jörg **Lackenbauer** und Heinz-Dieter **Wenzel**, Eine Dekade wirtschaftlicher Transformation in den Westbalkanstaaten: Ein Überblick, November 2005
- 54 Arben **Malaj**, Fatmir **Mema** and Sybi **Hida**, Albania, Financial Management in the Education System: Higher Education, December 2005
- 55 Osmat **Azzam**, Sotirag **Dhamo** and Tonin **Kola**, Introducing National Health Accounts in Albania, December 2005
- 56 Michael **Teig**, Fiskalische Transparenz und ökonomische Entwicklung: Der Fall Bosnien-Herzegowina, März 2006
- 57 Heinz-Dieter **Wenzel** (Herausgeber), Der Kaspische Raum: Ausgewählte Themen zu Politik und Wirtschaft, Juli 2007
- 58 Tonin **Kola** and Elida **Liko**, An Empirical Assessment of Alternative Exchange Rate Regimes in Medium Term in Albania, Januar 2008
- 59 Felix **Stübben**, Europäische Energieversorgung: Status quo und Perspektiven, Juni 2008
- 60 Holger **Kächelein**, Drini **Imami** and Endrit **Lami**, A new view into Political Business Cycles: Household Expenditures in Albania, July 2008
- 61 Frank **Westerhoff**, A simple agent-based financial market model: direct interactions and comparisons of trading profits, January 2009
- 62 Roberto **Dieci** and Frank **Westerhoff**, A simple model of a speculative housing market, February 2009
- 63 Carsten **Eckel**, International Trade and Retailing, April 2009
- 64 Björn-Christopher **Witte**, Temporal information gaps and market efficiency: a dynamic behavioral analysis, April 2009
- 65 Patrícia **Miklós-Somogyi** and László **Balogh**, The relationship between public balance and inflation in Europe (1999-2007), June 2009

- 66 H.-Dieter **Wenzel** und Jürgen **Jilke**, Der Europäische Gerichtshof EuGH als Bremsklotz einer effizienten und koordinierten Unternehmensbesteuerung in Europa?, November 2009
- 67 György **Jenei**, A Post-accession Crisis? Political Developments and Public Sector Modernization in Hungary, December 2009
- 68 Marji **Lines** and Frank **Westerhoff**, Effects of inflation expectations on macroeconomic dynamics: extrapolative versus regressive expectations, December 2009
- 69 Stevan **Gaber**, Economic Implications from Deficit Finance, January 2010
- 70 Abdulmenaf **Bexheti**, Anti-Crisis Measures in the Republic of Macedonia and their Effects – Are they Sufficient?, March 2010
- 71 Holger **Kächelein**, Endrit **Lami** and Drini **Imami**, Elections Related Cycles in Publicly Supplied Goods in Albania, April 2010
- 72 Annamaria **Pfeffer**, Staatliche Zinssubvention und Auslandsverschuldung: Eine Mittelwert-Varianz-Analyse am Beispiel Ungarn, April 2010
- 73 Arjan **Tushaj**, Market concentration in the banking sector: Evidence from Albania, April 2010
- 74 Pál **Gervai**, László **Trautmann** and Attila **Wieszt**, The mission and culture of the corporation, October 2010