

GENERATIONAL CHANGE IN THE SOCIETY OF HUNGARIAN LARGE ENTREPRENEURS: EXPECTED DEVELOPMENTS

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ABSTRACT: *Based on previous fieldwork research we compare two generations of owner-managers of large and medium-size Hungarian privately owned companies. Members of the first group started business after the collapse of the socialist economy in 1989–1990. This group consists mainly of “privatisers” or successful players in the secondary economy. The members of the second group are successful younger entrepreneurs who started private businesses in the first decade of the twenty-first century. Concerning their managerial skills, business strategy, and cultural-political preferences we found remarkable differences between the two groups. Description and careful analysis of these differences may help us to explore the expected behavior of the new generation of entrepreneurs. A characteristic business strategy is a mixture of conflict avoidance and soft cooperation with the government. It remains an open question whether these behavioral modifications will be sufficient for survival and development or whether the autocratic system will force further changes in business behavior.*

KEYWORDS: *private entrepreneurs, generation gap, business strategy, managerial skills*

In this document, we compare two generations of Hungarian owner-managers of large and medium-sized private companies or company groups. The description of similarities and differences between these two groups is not sufficient to replace an informed forecast, but it may help to articulate some trends in entrepreneurial behavior.

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METHODOLOGICAL CONSIDERATIONS

Our line of thought is based on decades of joint research on these entrepreneurial strata with our friend and colleague Júlia Szalai² (Laki–Szalai 2004, 2007, 2015). In our research, we repeated the related fieldwork and conducted interviews with Hungarian ‘large’ entrepreneurs every ten years. The first round of field research took place in 1998–2001 and the second in 2009–2012. The third one will hopefully start in 2022. Thus, we will be in a position to compare decades of change in entrepreneurial behavior during the years of the Hungarian post-communist regime after 1989. During our research, we have also been able to use the results of other Hungarian researchers (Györi et al. 2019; Kuczi et al. 1991; Szalai et al. 1994).

We do not present tables and numerical data here when it is possible. The methodology we used in our previous studies is more important in this respect. The most important sources of information in our research have been 112 in-depth interviews with 81 owner-managers. (In 38 cases, we also interviewed a respondent for the second time.) With this small dataset, it is sufficient to operate with “more-less”/“increasing-decreasing”-like findings, or statements.

Hungary’s system of political and administrative governance will be considered here as an independent variable. The institutions and regulations of political decision-making and control have twice undergone remarkable change in the last 30-35 years. The first involved the so-called post-socialist transition: the creation of the rules and institutions of a liberal democracy and market economy in 1989 and after. The second period, which started in 2010, could be characterized as the reversal of this system into autocracy.

THE FIRST GENERATION

Medium-sized and large companies with dominant or absolute Hungarian ownership were the topic of our research.³ The subjects (all the interviewees) of the research were Hungarian private persons, owners of a decisive (in many of the cases, a majority) share of stocks, and the main decision-makers at a company or at a group of companies with 250 or more employees and/or with

² I would like to thank Júlia Szalai for agreeing that the results of shared research could be used in this essay.

³ The main results of this research are available in Laki–Szalai (2004) and Laki (2003).

0.5–10 thousand million HUF (3–4 million euros) turnover per year.⁴ The majority of owner-managers were *male* and *highly educated* (with a university or college degree). The majority were born in villages but typically lived in *Budapest* or in big Hungarian cities. The majority were older than 40 on the day of the first round of the interviews.

Our respondents had arrived in this social group from different directions and in different ways. We found quite a lot who had entered the (legal and illegal) private sector⁵ in the twilight of the socialist era. They had developed their small businesses into medium-sized or large businesses after 1989. We also conducted numerous interviews with former (mainly top) managers of large state-owned companies and large co-operatives who became owner-managers of private companies after 1989 only. Because of these career-path differences, the probability of our respondents' involvement in privatization was different. Those who had left the state and co-operative sector before the collapse of the socialist system mostly founded new private companies. On the other hand, the majority of high-ranking managers who stayed in the state-cooperative sector until the end of socialism acquired property through the privatization of state-owned companies and co-operatives. Not only were the methods and opportunities for property acquisition different, but owner-managers with divergent origins applied different methods for managing their property. However, the entrepreneurs of the post-socialist transition also had features in common: they had accumulated knowledge and skills in the socialist economy, among other things in...

- managing organizational units,
- comparing costs and benefits (company-level accounting),
- factory planning, and
- mobilizing market relationships (inter-company relations).

“The main task of those who acquired property in the privatization of state-owned (mainly large) companies was crisis management, stabilization and [the] reconstruction of stagnating or declining companies. Those who established small private companies were forced to create the financial and market conditions for [the] fast growth of their businesses.” Laki (2003: 706)

4 Concerning company size measured by number of employees, we followed European Union standards: “Enterprises can be classified as small or medium sized (less than 250 employees) or as large (250 or more employees). This indicator is measured as the number of employees in manufacturing.” OECD (2021)

5 Many definitions of unauthorized economic activity outside the socialist sector were used in the years of socialism. The most common was the “second economy.” The definition we use in our article (“legal and illegal private economy”) indicates more accurately this important stage of an entrepreneurial career.

Based on their accumulated knowledge and skills, our respondents became *successful* members of the Hungarian business community in the first decade of the post-socialist transition. *Measured in terms of company growth*, they performed excellently. The vast majority of these owner-managers increased the size of their company or companies remarkably. Typically, they were owners of small or medium-sized businesses in the first years of the transition and owned and controlled large or medium-sized companies a decade later. Small or micro businesses started with a few hundred thousand forints had been turned into companies with several hundred or thousand employees and/or an annual turnover of several hundred million or more than one billion forints. For a smaller part of the sample we did not measure or estimate large enough growth to justify moving the relevant company up from one category to another. This group included privatized (previously state-owned) companies which had suffered from serious financial difficulties caused by the collapse of their traditional markets or by over-investment in the last years of socialism. The performance of the new owners in this group was remarkable as well. They had *reconstructed* these companies: they stopped the decrease in output and also managed to successfully balance all the main financial indicators.

The first generation in the first decade of the new century

As mentioned before, the core of our follow-up research was a second round of in-depth interviews with our original respondents. We successfully revisited the majority of them in 2009–2011.

The unexpected outcome of these interviews was that the majority of their companies, which had previously grown fast or at least performed better than average, had remained stagnant or declined in this decade. Nearly half of our respondents reported bankruptcy and/or the forced sale of their companies. Only a few reported continued growth, while the others said that their businesses had stagnated or had been dissolved. It is important to note that this unfavorable turn of events happened *before the world economic recession* which started in 2008. It is hardly surprising that the recession exacerbated these negative developments. And, of course, all these results were not the outcome of conscious decisions or business plans. On the contrary: our respondents had talked about a planned increase in turnover or about the expansion of capacities in the vast majority of the interviews which were undertaken ten years before.

THE SECOND GENERATION – PERSONAL DATA AND BUSINESS ENVIRONMENT

In the second (follow-up) phase of our research, we interviewed a sample of younger owner-managers of large or medium-sized companies. They were much younger than the older generation – more precisely, 30–35 years old at the time of the interviews. They started businesses about one decade later than the heroes of our previous research. The basic features of the Hungarian business community were also observable in the younger generation. The share of highly educated urbanite males in this group was much larger than in the general population. While these sociological-demographic attributes may be among the necessary conditions for entering this social strata, they can hardly explain the performance-related differences between the two groups.

Different ambitions and different achievements

Both groups of companies (and their owner-managers) faced similar macroeconomic challenges – such as a slowdown following the transformational recovery and then the 2008 global economic crisis – in the first years of the new century. Moreover, we found that the two groups owned companies in declining and in dynamic sectors in similar proportions. The innovation performance of the two group of companies did not differ much either (Laki–Szalai 2015: 17–27).

We have come to perhaps the most important question of our essay: *what explains the remarkable difference in the performance (as measured by company growth) of the two groups of entrepreneurs in the first decade of the twenty-first century?* To put it another way: how and why did the knowledge and skill (managing organizational units, comparing costs and benefits, factory planning, and mobilizing market relationships) accumulated by the first generation (mainly in the socialist past) which worked so well in the first decade of post-socialism become less efficient in the second decade of our research?

The age of the entrepreneurs (more specifically, any retirement plans) are among the factors which may explain the performance differences and the declining results, but only in a minority of cases. It seems more important in this regard that the two generations had accumulated and operated different types of human and social capital, and an analysis of these differences can help us explain the adverse developments in the older generation's performance.

Family background

The majority of parents of the old generation were employed as middle-ranking managers or clerks by the state-cooperative sector. The members of the new generation are also the children of the middle class. (Laki–Szalai 2006: 329) But there was a remarkable shift in that their fathers were owner-managers of a private company in many cases, while their mothers were also often employed by the family business.

These shifts in family background indicate that the owner-managers' attitudes and their sources of learning and experience differed remarkably in the second phase of our research. The members of the old generation restructured and used the knowledge, skills, and experiences that they had accumulated in the socialist economy. Basically, they had used this "improved" human and network capital in their private companies. A significant part of the new generation had followed a different path. They had collected and accumulated entrepreneurial managerial skills and made market contacts in private – mainly family – businesses that had been established by their parents.

Globalized fields of organized education

The parents of both generations followed similar schooling strategies: the majority of the entrepreneurs attended prestigious secondary schools (*gimnázium*). The "real existing socialism" was a closed society with extremely few opportunities to travel or spend long periods abroad. Similarly to the vast majority of the population, the members of the first generation did not attend high schools or universities in foreign countries. This also explains why many of them did not speak foreign languages at all.⁶ The transition of the socioeconomic system did not improve the performance of this group in this respect. They postponed or gave up their language learning ambitions, and they typically relied on professional translators to participate in business talks with foreign partners.

The majority of the new generation also preferred "pragmatic" high schools and university programs. They were often critical of the quality of education but admitted that after the collapse of socialism these schools and universities offered knowledge and skills that were adaptable to the market economy. (The

⁶ The learning of the Russian language was obligatory in elementary and secondary school, but because of the low level of efficiency of language teaching, only a very few were able to speak or read Russian (Laki 2007a).

lack of such courses and subjects was recognized by the older generation as a major disadvantage.)

Not only did the new generation of entrepreneurs have much better language skills and knowledge than their parents or the Hungarian average, but so did the children of the old generation. (Laki 2007a) Some members of the new generation attended high schools or universities abroad. Nearly one-third of the group speak two or more foreign languages.⁷

Out-of-school learning – how to be a modern journeyman?

It is an important characteristic of the old generation that after finishing secondary school or military service they began to work at the lower levels of state-owned companies or cooperatives. Many members of the young generation – just like their older counterparts – entered employment as university students, worked and learned simultaneously, and cancelled and later restarted studies. However, the two groups differ in that their members (after graduation) entered specific fields of on-the-job training at different frequency. The members of the older generation started on their career paths typically as low-ranking managers in a company or a cooperative. At a later stage, they became managers of larger organizational units (plants, shop networks, or divisions) and thereafter some part of them moved up to become executive officers.

The knowledge and experience that they had accumulated as decision-makers at different levels of management increased their chance of becoming successful businessmen. The everyday practice of cost-benefit analysis, the experience of how to supervise and motivate several hundred blue- and white-collar workers, and local knowledge of and personal contact with buyers, suppliers, bankers, and with officials of the state were very important in this respect.

The members of the new generation followed a different career path. Before starting their own businesses, they were often employed by private companies which were owned by their parents. More than a half of them had worked abroad or had the opportunity to acquire knowledge and experience in the employment of a foreign-owned company in Hungary. This was another very important source of their out-of-school knowledge and skill acquisition.

⁷ There were several signs that the computer knowledge and skills of the new generation were much greater and more thorough than those of the older generation.

MARKET CONDITIONS

No. 1: Growing share of the old generation's companies on shrinking markets

We can reasonably assume that the different nature of the accumulated knowledge and skills of the owner-managers contributed significantly to the different market behavior and growth disparities of the companies they owned.

The fast decline of the public sector in the nineties (due to mass privatization) produced unusual conditions on the markets of several products and services. "The number of [new company] entries increased faster on shrinking markets where, due to the bankruptcy or collapse of the great producers and major suppliers, supply decreased faster than demand. This development allowed new businesses and newly privatized, formerly state-owned companies to increase their market share and yearly turnover." (Laki 2011: 64) It was an extremely promising strategy to enter monopolistic markets: "The party-state was forced to give up several monopolistic positions after socialism and a lot of those who were able to obtain these positions grew rich very fast. Remember that chronic shortages were experienced in nearly all socialist countries before and when the system collapsed – mainly because of the serious restriction on imports from the West. As soon as this barrier disappeared or collapsed, hundreds or thousands of enterprises moved into this preferred business and were able to make remarkable profits." (Mihályi 2010, Vol.1: 20)

These tendencies strongly influenced the pre-emption strategy of the old generation. Their successfully privatized companies not only kept their market share but increased their turnover on stagnant or shrinking markets. They acquired the market share of formerly state-owned companies where, due to financial or other business difficulties, the new owners could not or did not want to keep theirs. A part of the old generation may have thought that if the share of those who left the market was a given, there was no need to expand the market or their market share.

But the second decade of post-socialism differed from the first one in this respect: "[the] occupation of market niches generated by the collapse of state-owned companies happened almost exclusively in the second stage of the post-socialist market development. The chance to acquire or redistribute markets that had been controlled or dominated by state-owned companies or big cooperatives radically decreased after the end of the privatization process." Laki (2011: 64)

No. 2: The growing presence of multinational companies

In the first decade of the post-socialist period, several companies with majority foreign ownership increased their presence on the Hungarian market (Table 1). The multinationals very often became a source of growth and stability for their Hungarian partners in the first decade of post-socialist transition. But the situation changed when mass privatization ended in 1997–1998. As Table 1 shows, the public sector had declined to a moderate size by this time, and therefore the possibility to acquire market share by means of privatization was diminished.

Table 1. Distribution of the subscribed capital of enterprises with single- and double-entry book-keeping in Hungary in 1992–2009

Year	State	Hungarian private person(s)	Dominant owner [was...]			Total
			Hungarian company	Foreigner	Other	
1992	52.1	10.2	0.0	11.4	26.2	100.0
1994	44.5	10.7	17.6	17.8	9.5	100.0
1995	25.7	11.5	19.1	26.8	17.0	100.0
1997	13.5	10.5	22.6	35.0	18.4	100.0
1998	12.0	10.7	25.6	40.3	11.3	100.0
1999	9.2	9.1	20.6	51.6	9.5	100.0
2000	7.9	9.2	18.0	58.5	6.4	100.0
2001	7.7	8.8	17.0	60.1	6.4	100.0
2002	12.3	13.2	24.5	40.2	9.9	100.0
2003	13.3	12.9	22.0	44.2	7.7	100.0
2004	13.3	14.0	24.0	40.7	8.1	100.0
2005	8.9	15.1	24.0	40.9	11.1	100.0
2006	8.1	14.0	25.0	44.2	8.7	100.0
2007	6.6	13.1	30.9	40.6	8.4	100.0
2008	6.5	10.4	25.7	50.0	7.2	100.0

Source: Laki–Szalai (2015: 62)

The growing presence of international companies on the Hungarian market was associated with increasing disadvantages for the majority of the old generation. They noticed signs of increasing predominance by their foreign-owned business partners, as companies owned by them typically lost the race against their foreign-owned competitors. The latter set the conditions and terms of business connections and transactions. They controlled and defined the prices of the product lines and the quality control systems of their Hungarian

partners. “Another peculiar symptom of such predominance was the unbalanced market share between Hungarian and foreign-owned competitors. There were several cases whe[n] powerful foreign-owned companies controlled the more profitable and/or faster growing niches of the market of a product or service and the Hungarians were forced to remain in or move into the less profitable or stagnating/slow-growing segment of these markets.” Laki (2007: 204)

No. 3: Successes of the new generation: specialization and careful selection of markets

The majority of the new generation considered the shrinking state sector as an independent variable in their market activities. They recognized that the companies owned by the first generation had captured the majority of the market niches which had been created by mass privatization. One of the decisive factors in their business strategy was therefore the acceptance that powerful domestic and foreign companies dictated the terms of market behavior. In other words, new entrants were only able to increase their market share at each other’s expense.

Table 2. *Characteristic features of the two generations of entrepreneurs*

Social and behavioral characteristics	Old generation	New generation
Most common family background	middle and upper members of corporate hierarchy of state-owned companies	middle and upper members of the corporate hierarchy, private entrepreneurs
Secondary school	prestigious secondary school	prestigious secondary school
University	knowledge of the planned economy / Hungarian universities	contemporary management knowledge / partly abroad
Foreign language	lack of knowledge	better-than-average knowledge
Learning by doing	large state-owned companies	private sector / partly abroad
Beginning of the business	1990–1995	2000–2008
Property acquisition	privatization, “second economy” of socialism	start up in the private sector or family business
Market behavior	competition with multinationals	cooperation or market sharing with multinationals
Management attitude	patriarchal	professional
Social role	active	passive

That is why the business strategies of these companies were consciously designed around the differences and specialties of market niches.⁸ We found interesting examples of careful but fast selection of market segments, which often implies specialization.⁹ Another important element of this strategy was avoiding or minimizing conflict with powerful multinational companies. There was a subgroup of the new generation that consciously entered only specific niches in international markets.¹⁰

We can conclude that the old generation often regarded multinational companies as forced competition. Members of the new generation, however, cleverly adapted to the situation. They cooperated with multinational companies or with their subsidiaries in Hungary and focused on the benefits of these partnerships.

THE THIRD DECADE: PRELIMINARY AND HYPOTHETICAL RESULTS

In the previous sections we presented the family background, knowledge, skills, and business behavior of two generations of Hungarian entrepreneurs. We found significant generational characteristics (Table 2). The comparison of these peculiarities helped us understand the performance disparity in the post-2000 decade. These behavioral differences/changes can also be considered as stages of a developmental-learning pathway. But can we make projections about the long-term presence of a dominant entrepreneurial behavior that may become more widespread among Hungarian businesspeople in the future? More specifically, can the dominant behavior of the new generation be seen as a pattern for the next generation of entrepreneurs to follow?

8 “Our market is segmented according to product lines. There are markets which are controlled by subsidiaries of strong, capital-intensive international companies. In these cases, our chance is not more than to take possession of a smaller market segment.” (extract from an interview)

9 “The most important event in the company’s history was that we found a very specific target market. The old-fashioned model of a company with diversified production lines became obsolete. We are in the age of specialists. I can be efficient if I am specialized, if I am well-prepared to manufacture a specific group of products. That’s why we bought machines which are the most efficient in the making of this product line. We send our colleagues to training courses that are partly product specified/focused. We built a new plant in which the technologies and the incentive systems are accommodated to the manufacturing process of this line of goods.” (extract from an interview)

10 “It is no secret that my company was set up to collect orders only on Western markets. It was obvious that there are remarkable differences between the costs here and there.” (extract from an interview)

In order to establish a trend (moreover, a long-term forecast) of entrepreneurial behavior, it would also be necessary to analyze and describe the events and tendencies of the post-2010 period in Hungary. We can only share some preliminary results of our ongoing study about this period. Based on a review of research documents, datasheets, and interviews, we have tried to figure out whether the interviewees we visited in 2010–2012 have retained their ownership of their businesses and their place in the corporate organization.

Based on information that we collected on the internet and in the traditional press, we found relatively stable ownership and management structure at the companies under analysis. The vast majority of these businesses were still in operation ten years later (with the same names and on the same sites).

In the majority of these companies, the owner (or groups of owners) has remained the same in the last ten years. A sign of the accelerating generation change is that members of the first generation have in many cases handed over leadership to younger family member. In a few cases, the company was wound up and the old owner left the economic space altogether. Another form of departure was the sale of the company. When the owner changed, the sellers were the members of the first generation without exception. These company closures and sales show that the presence of the first generation will decline in the third decade, while the new generation has often taken a leading position in family businesses.

THE POLITICAL FACTOR – THE SYSTEM OF NATIONAL COOPERATION¹¹

The two generations of entrepreneurs have quite different political values and behaved differently in the political space. While the older generation showed greater public activity, the members of the younger generation tended to stay away from politics. These differing attitudes were mostly not accompanied by the long-term positive discrimination of companies in terms of the market regulation and procurement policies of local authorities and the central government in the first two decades of our research.

However, a non-conventional change of government occurred in Hungary in 2010 (Körösi et al. 2020; Kovács–Trencsényi eds. 2020). The winner of the election, the FIDESZ–KDNP party alliance, which controlled more than

11 *The Programme of National Cooperation* (2010)

two-thirds of the seats in the Hungarian Parliament, transformed the Hungarian constitutional system radically and with unprecedented rapidity. What had been known as the combination of the written *Constitution of 1989* and the case law of the Constitutional Court was replaced with a new constitution named the *Basic Law*. The new holders of power changed the structure and management of state administration. There were also fundamental shifts in the system of public education and in the financing of the health-care system. We witnessed the introduction of novel approaches and tools never before seen in the regulation of the economy and taxation.

There are many signs that the number and the influence of politically connected companies have increased permanently in the emerging autocratic socioeconomic environment Laki (2017).

The owner-managers of the related companies...

- were or are present as public intellectuals in advisory and/or program work groups of the FIDESZ–KDNP party alliance.
- have close personal relationships with important policymakers in the post-2010 period.
- have close relationships with people who have connections to the leading figures in the FIDESZ–KDNP alliance.

The business strategy of these businesspeople and of their companies was/is determined by special incentives. Members of the group relate to the representatives of political power differently than the majority of Hungarian businesspeople.

Companies with ties to FIDESZ have enjoyed various regulatory advantages and preferential treatment in public procurement:

- a disproportionate share of their products and services are purchased by the FIDESZ-run state administration and local governments;
- they have received a disproportionate share of funds from state media advertising;
- foundations, local governments, and associations close to the government regularly spend public funds on their products and services;
- their growth may be derived from state-led changes of ownership (privatization);
- disproportionate share of entrepreneurs with ties to FIDESZ in governmental development programs;
- modification of construction and environmental protection regulations to favor companies with ties to FIDESZ;
- regulatory changes after change of ownership;
- exceptional nationalization of assets.

Partly because of these special advantages, owner-managers of large enterprises with ties to FIDESZ have acquired remarkable and fast-increasing wealth since 2010. Based on the growth in the estimated value of total assets¹² as an indicator of the success of entrepreneurial activities, the sub-group of FIDESZ-connected owner-managers has performed better than the average of the 100 wealthiest Hungarians since 2010. There were four FIDESZ-connected persons on the list of the 100 wealthiest Hungarians in 2014. Their number increased to 18 in 2020. This means that the wealth of the majority of FIDESZ-connected entrepreneurs increased faster than the average of this group in the third decade of our research (Laki 2016).

CONCLUDING OBSERVATIONS

How do companies and entrepreneurs that are less closely or not connected to FIDESZ view these developments? This is one of the crucial questions in our ongoing research. At the present stage, what we can share with the reader is a partly tested hypothesis about the possible responses to the challenging conditions of the *National System of Cooperation*. Based on the content analysis of several company stories, two business strategies of *politically non-connected companies* seem to be gaining strength.

A characteristic business strategy is a mixture of conflict avoidance and soft cooperation with the government. A typical case: one of the owner-managers from the “new generation” managed to involve Prime Minister Viktor Orbán as the guest of honor at his factory-opening ceremony Laki (2016: 120). More important, at least in terms of its impact, *is the second type of business strategy: the behavior of entrepreneurs who relocated the center and focus of their business abroad after 2010.* In these cases, not only labor but also capital “emigrates” from the country. For example, a member of our sample joined an international product consortium.

It remains an open question whether these behavioral modifications will be sufficient for survival and development or whether the autocratic system will force further changes in the business behavior of the second generation which now plays a decisive role in the Hungarian entrepreneurial world. Which pattern will the next generation of entrepreneurs follow? That of those who were members of the new generation before 2010, or those who built connections to FIDESZ after 2010?

¹² These estimates are based on carefully selected criteria which are used and coordinated by a standard team of experts. More details in Szakonyi (ed. 2020).

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