

Business Advice Series Part One: Ten typical mistakes investors make in Hungary

Avoiding common business pitfalls in Hungary

There are certain traps that no enterprise can ever afford to make the mistake of falling into. The aim of this ten-part series in *The Budapest Times* and *Budapester Zeitung* is to help business people investing in Hungary avoid some of the serious errors that, unfortunately, are made time and time again. Also, we will be giving hints and examples as to how companies and stakeholders can turn commonly occurring conflicts and problems to their advantage, and emerge as winners.

According to a survey conducted in 2004 by the German-Hungarian Chamber of Commerce and Industry, the vast majority of German investors are satisfied with the results of their investment in Hungary: 82% said they would do the same thing all over again. A mere 17% said they would never do it the same way again, and only 1% would not consider making the same investment again under any circumstances. Those results however paint a very flattering picture of the Hungarian business environment. One could almost suspect too flattering, because all too often circumstances emerge that point to some serious problems within some companies. One possible explanation for the contradiction between the results of the Chamber's survey and the oft-bemoaned irregularities is that even stakeholders in crisis-hit companies are nevertheless satisfied with their investment even though they can no longer fulfil their original commercial expectations.

It could also be that the businesses queried in the survey were referring to general business conditions and not specifically their own enterprises. Another possible factor could be that not many businesspeople tend to want to talk about their own companies' problems.

Whatever the survey means, it is a fact that similar problems repeatedly crop up within companies, such as conflicts with business partners, between management and the authorities (tax authorities in particular). These aggravations can never be completely eliminated of course, but they can be managed.

Naturally, the selection of blunders I have chosen to address over the coming weeks is completely subjective. It would be easy to come up with a list of ten or even 100 more topics, but the chosen few will concentrate on the most common misjudgements that regularly arise in Hungary in the fields of business administration, legal matters and tax.

We will meanwhile be keeping in mind the "lifecycle" of an enterprise, beginning with the selection of a location, the proportioning of ownership, the foundation, the ongoing operations, conflict management in (later) crisis situations and the development and optimisation of the company through restructuring. Even if the last phase of an investment turns out to be divestment or liquidation, the show must also go on.

The subjects I will be tackling do not necessarily apply only to Hungary, but also encompass problems business people can encounter in other countries as well, especially the new EU member states formerly part of COMECON, exhibit many structural similarities.

Nonetheless, it would appear that a certain phenomenon often occurs in companies with mixed ownership (commonly known as joint ventures), which is the tendency on the part of the foreign stakeholder to be overly lax on monitoring and verification,

apparently because Hungarians are more successful than others when it comes to gaining the trust of investors.

Many business relationships in Hungary between both large and small enterprises develop through personal acquaintances and fortuitous contacts. This factor often leads to investors letting down their guard and neglecting to apply the necessary control mechanisms.