

**Flexibilities and Trust:
Production Markets and Role Production
in the Hungarian Economic Transformation**

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Uncertainty and Flexibility

The current period of economic transformation is characterized by heightened uncertainty in Hungary. A significant part of this uncertainty has bureaucratic origins. Laws and regulations concerning all aspects of economic life, from taxation to social security dues and privatization are subject to frequent and often unforeseeable change (Stark 1996; Voszka 1994, 1995, 1996; Lányi 1991). This unpredictability is partly the result of the lack of consultative institutions between civil society and the state (which lack is particularly evident in Hungary among the East Central European countries) (Stark and Bruszt forthcoming). The scarcity of such institutional ties has exacerbated the traditional distrust between economic actors (especially the owners of small and medium-sized enterprises) and government officials (Gábor 1991; Ékes 1992; Csanádi 1995; Kemény 1996).¹ This distrust has also increased the likelihood that at least some changes in regulations are intended to carry an element of surprise for economic actors.²

The transformation has also increased the rapidity of change of market signals. The liberalization of private enterprise, the fragmentation of large state-owned firms and the lowering of barriers to foreign trade and investment have raised the number of competitors in every market (Major 1995; Ehrlich and Révész 1996). As a result, markets have fragmented and product life-cycles have shortened. The economic uncertainty experienced by market actors is further increased by the fact that several companies are empty shells, often used for opportunistic strategies (Czakó et al. 1994).

In order to survive in uncertain environments, economic actors rely on flexible strategies.³ They rarely implement plans that would lock them into unique alternatives. In order to be able to change quickly, they pursue tactics of hedging, keeping several courses of action open to themselves (Leifer 1988, 1991; Piore and Sabel 1984; Sabel 1995c; Sabel and Zeitlin forthcoming).

Analysts have often pointed to the positive as well as to the negative consequences of the flexible strategies adopted by Hungary's economic actors. Writing about the second economy, István R. Gábor emphasized not only entrepreneurs' ability for organizational innovation, but also their focus on short-term profitability, leading to widespread opportunism. He repeatedly underscored the importance of the small proportion of full-time entrepreneurs in the Hungarian economy, and pointed to its negative consequences in terms of technical development and international competitiveness

¹For an abstract formulation of this link, see e.g. Sabel 1992, 1993, 1994. For a similar phenomenon in Italy, see Regini 1995.

²Please note, that we do not refer only to changes in economic factors which are purposefully unexpected (like interest-rate hikes, or currency devaluation), but to sweeping institutional changes in the economic environment as well.

³Flexible strategies (in which the ability to change quickly is an important goal) are contrasted here with strategies of stability and slow change. While strategies of stability are adequate when there is little variation in the environment, strategies of slow change are appropriate when the intended transformation is profound, for example in the case of changing the culture of an organization (e.g. Harvard Business School 1989).

(Gábor 1985, 1991, 1992, 1996). David Stark, investigating the hedging strategies of companies characterized by recombinant property forms, has stressed the possibility of a trade-off between adaptability and accountability (Stark 1996).

Starting from the above statements regarding the possibly Janus-faced consequences of flexibility, our aim here is to problematize the notion of flexible (economic) strategies. We contend that flexible strategies have different forms and that the type of flexible strategies implemented by Hungarian economic actors will greatly influence the course of the country's economic development. Some types, like those evidenced in industrial districts (Pyke et al. 1990, Pyke and Sengenberger 1992; Cossentino et al. 1996; Sabel 1995a) and "lean" manufacturing systems (Womack, Jones and Roos 1990; Nishiguchi 1994; Herrigel 1996; Cusumano and Selby 1995; Sabel 1991; Bowman and Kogut 1995b) are associated with economic development. In this literature, the more flexible the strategies are that economic actors develop, the better they can adapt to their constantly changing economic environment, and the more successful they can be - individually and collectively. Expressing a common feature of these forms of flexible strategies, we shall call them 'flexibility based on studied trust'⁴. But flexibility has another face. A separate branch of literature on the topic, concentrating on - what we contend to be - *another type* of flexible strategy links flexibility to less beneficial social phenomena. Studies on the Sicilian and Russian mafias (Gambetta 1988c, 1993, 1994a, 1994b, 1994c; Varese 1994) and Italian corruption networks (Pizzorno 1992; della Porta 1992; Vannucci 1992; della Porta and Vannucci 1994) also emphasize the importance that flexibility has for the survival and *individual* success of actors in these milieus. Underscoring a common feature of these flexible forms of behavior, we shall denote them as 'flexibility based on distrust'⁵.

In what follows, we shall examine the ways in which studied trust and distrust contribute to actors' decisions to behave flexibly in the two types of environments; how information flows in the two contexts and the contents of relations developed among actors in the two realms. At this moment, our typology consists of two ideal types. As in the case of every typology based on ideal types, emphasis should be placed on intermediate categories (Weber 1978; Wittgenstein 1992). Our hypothetical empirical generalization is that most flexible strategies pursued by (economic) actors possess some features of each ideal type. Unfortunately, at the present stage of our research, we cannot provide a systematic analysis of the area inbetween the two pure types. The aim of the research program presented at the end of this paper is, on the theoretical level, to attempt to fill in the existing gap. Related to this, on the empirical level, we shall contend that the flexible strategies pursued by Hungarian small entrepreneurs possess a mixture of features of the two ideal types. The aim of the

⁴In what follows, we shall rely on the following definition of trust: "trust (or, symmetrically, distrust) is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both *before* he can monitor such action (or independently of his capacity ever to be able to monitor it) *and* in a context in which it affects *his own* action." (Gambetta 1988b, p.217)

⁵As it will be evident in our argument later, the expression 'based on' denotes a different logical relationship between trust and flexibility in our two ideal types. This should not affect our argument.

research program presented at the end of the paper is, on the empirical level, to deepen our understanding of these strategies, as well as of those evidenced in other sectors of the Hungarian economy.

Flexibility Based on Studied Trust

Studied Trust and Constitutional Orders

In the following paragraphs, we shall argue for the importance of what Charles Sabel calls 'studied trust' and of the institutions through which it is created and maintained (Sabel 1992, 1993) in enabling actors to follow the flexible strategies that we classify in this ideal type. Sabel's starting assumption is that "trust is a precondition of social life" (Sabel 1992, p.218). He postulates that "individuality and sociability - here, unthinking attachment to a body of collectively defined routines and precepts - are indissolubly linked. Just as an artist defines his or her style by varying some - but only some - of the elements defining the commonly acknowledged genres, so the individual becomes an individual by applying the repertoire of socially acknowledged behaviors in a distinctive way." (Sabel 1993, p. 87.)⁶ A cardinal concept in this formulation is that of the reflexive self: "a self taken as a hierarchy of identities or a cacophony of voices that somehow decides which of its many possible selves the self will be." (Sabel 1993, p. 87) Combining his argument about individuality with his notion of reflexivity, he states that reflexive selves, while enacting their individual strategies rely, and therefore make themselves vulnerable to, the actions of other individuals (Sabel 1993, p. 88).

Relying on the concept of reflexivity, Sabel argues that trust is not an all-or-nothing concept. "[I]n a world of reflexive agents, everyone knows what it means to trust, and everyone can imagine trusting persons one does not currently trust, and ceasing to trust persons one currently does." (Sabel 1993, p. 90) "We do not simply trust or believe or not. Rather we come to trust; we renew our beliefs; we disbelieve; we fear duplicity, and so on." (Sabel, 1993, p.92)⁷ Trust between reflexive selves is studied: granting it does not exclude questioning its basis, while raising doubts about it does not entail all-out suspicion. In conditions of studied trust, emphasis is based on negotiations in which qualms regarding the ground-rules of behavior are made explicit, but with the specific purpose of ironing out differences. Based on these assumptions, the proper question is not "How might trust be possible?" but "Given that some trust is unavoidable in human relations, how do we come to trust some persons, groups, or institutions, rather than others?" (Sabel 1993, p. 87.)

Studied trust is created and maintained in what Sabel calls 'constitutional orders' (Sabel 1993, pp. 73-75). Constitutional orders incorporate constituent units and a superintendent. In our examples, constituent units might be the employees of a company (or of several companies), or firms in a market. Superintendents might be people resembling, but in fact performing very different roles from, the

⁶For related formulations see e.g. Bourdieu 1984; Bourdieu and Wacquant 1992; Boltanski 1996b; Boltanski and Thevenot 1987. Wagner 1994 provides a survey of related arguments.

⁷In the formulation of an economist, "a person's reputation is the 'public's' imputation of a probability distribution over the various types of person that the person in question can be in principle. Reputation is rarely of the all-or-nothing variety." (Dasgupta 1988, p.62)

traditional supervisors of these employees; most often they are composites of the constituent entities, such as trade associations, or groups of employees responsible for the production of a gadget at a company.

A salient feature of constituent units is their high degree of interdependence; they would not be able to accomplish their tasks on their own, only jointly, with other constituent units. This, however, does not mean that the task can be completed *solely in a given* group; it only means that *a* constituent unit would not be able to do it, or the contribution of a constituent unit, strapped from those of other constituent units, would be meaningless. Also, constituent units usually perform several tasks and, as a consequence, they are the members of several groups at the same time.

The most important constraint of rule-making in constitutional orders, for our purposes, is that "all rules [about which questions arise -S.K.] must be set in consultation with constituents" (Sabel 1993, p. 74). This arrangement is based on the assumption that constituents usually know more about the object of discussion than the superintendent. Normally, the superintendent facilitates communication among the constituents; the superintendent is not the constituent's boss. "Consultative rule-making...makes the ranking of constituents and superintendent indeterminate" (Sabel, 1993, p. 75).

The basis of studied trust in constitutional orders is the joint reduction of information asymmetry over sensitive issues and the assurance that disputes will be resolved by the participation of all parties concerned. Typical ground rules of constitutional orders "specify *only* the forms of information exchange [which the parties will follow] and...create no separate machinery for dispute resolution" (Sabel 1995b, p.35). Since all parties agree to reveal whatever information is necessary for their joint involvement, and their close integration (the parties exist, to a great degree, as members of constitutional order(s)) makes certain that hiding information is both costly and unlikely, suspicions are minimized. At the same time, the explicit and reliable nature of all relevant information induces the questioning of the present arrangement. Openness about information and the frequent questioning of practices lead to the fact that trust among the parties will not be blind. While the unraveling of the arrangement is possible, tight interdependence prompts the parties to seek joint solutions to their problems.⁸

Such an arrangement helps the players to adapt flexibly to changes in their environment because actors, contexts, rules and methods can be jointly redefined in order to enable new, mutually advantageous courses of action. As long as a new way of acting provides benefits to the parties the requisite redefinition of their identities and their relationship is perceived as possible because the underlying constitutional order decreases the likelihood that any parties will take advantage of the consequent but unforeseen vulnerabilities of others. The participants - constituent units and superintendents alike - can perform virtually any roles as long as their mutual advantages are explored in consultations. Moreover, when new forms of behavior are contemplated the mutual interdependence of the parties renders such consultations necessary since no unilateral role change is likely to lead to success. As a result, flexible strategies are always joint endeavors in this context. My

⁸In Sabel's words: "The central effect of these institutions...is to blur the boundary between policing behavior and articulating consensus. (...) They do this by allowing the parties to monitor each other's behavior while encouraging them to jointly reevaluate their situation in the light of these observations and adjust their reciprocal expectations accordingly." (Sabel 1993, p.93)

flexibility is made possible by your flexibility alone.

In the subsequent paragraphs, we shall 'bring life to' the above, rather abstract argument, and illustrate how economic actors enhance their flexibility by participating in constitutional orders. The story will be that of emerging networks of specialists operating in very uncertain contexts. In their quickly evolving markets, what to produce is very difficult to define, considering the amorphous character of consumer tastes about non-existing products, rivals' guesses about the same moving target appearing in quick succession, and the relative lack of knowledge about what is possible to produce until it has actually been tried. Continued presence in such markets is possible only on the basis of the continuous exploration of possibilities: organizational learning and flexibility are of paramount importance. Besides, in their quickly evolving environments, where one can be certain to gather, on one's own, only a decreasing proportion of the knowledge necessary to perform one's tasks properly, actors' jobs become profoundly interdependent and hierarchies fade. Uncertainty prompts the continuous questioning of rules, methods and identities; interdependence and the fading of hierarchies induces actors to engage in their *joint* redefinition. As a result, actors' flexibility is based on their studied trust.⁹ In order to place these activities in context, we shall outline the developments that have led to their recent diffusion in industrialized countries.¹⁰

Market Fragmentation and its Organizational Consequences

The growing instability and saturation of traditional mass markets in industrialized countries from the beginning of the 1960s has probably been the most important economic process that contributed to this diffusion¹¹ (Piore and Sabel 1984, pp. 165-193; Herrigel 1996, pp. 178-180). Specializing one's products in order to distinguish them from those of one's competitors became a successful strategy in this environment.¹² As a result, mass markets became fragmented, and product

⁹The need to devise flexible organizations has resulted in several innovations, not all of which conform to the ideal typical argument presented here. For example, an analysis of workplace practices, focusing on the telecommunications and automobile industries in seven industrialized countries found four recurring patterns, while also emphasizing variation within the patterns (Darbishire and Katz 1996). These patterns reflect different configurations of many of the organizational developments outlined below, as well as of some arrangements which are more similar to our second ideal type. (We argue that an isomorphic diversity of organizational forms can be observed in the phenomena conceptualized by the other ideal type.) This wide variation in the social organization of flexibility is one of the most important reasons why we contend that the arguments presented in this and the subsequent section of the paper describe ideal types. We shall present our argument about the necessity to transcend this ideal typical framework in the third part of the paper.

¹⁰Besides the areas of modern economies treated below, flexibility based on studied trust is also important in the economic development policies of industrial districts (Cossentino et al. 1996, Pyke 1994, Sabel 1994).

¹¹The strategies mentioned here have existed earlier but probably on a smaller scale. See e.g. Herrigel 1996, pp.33-71; Sabel and Zeitlin, forthcoming.

life-cycles shortened.

These developments resulted in the flexible integration of several specialists, engaging in the continuous reflexive redefinition of their world - constitutional orders.¹³ In the fragmented mass-markets, large, hierarchical organizations, characterized by an extreme and rigidly defined division of labor producing long runs of standardized products were not profitable any more. Two processes emerged: the first was (collaborative) subcontracting which created specialist organizations with complex identities;¹⁴ the second was the blurring of boundaries between functionally or hierarchically separate parts of organizations, as well as of those between organizations - this process reintegrated the "complexified specialists", let them be people or organizations (Piore and Sabel 1984, pp.205-220; Bowman and Kogut 1995b; Fisher et al. 1995; Herrigel 1996, pp.235-253; Locke 1995, pp.105-121; Nishiguchi 1994; Storper 1989; Womack, Jones and Roos 1990). The first process started because it no longer made economic sense to place all aspects of the production in-house (Herrigel 1996, pp.182-186). Specialized departments, focusing on the production of a small component of the final product could no longer be sustained based on smaller production runs. Also, combining the risks resulting from fluctuations in - what became - several markets within the walls of a single organization was too hazardous. Besides, in order to have access to the know-how necessary to produce specialized items, it was more advantageous to rely on components manufacturers who became specialists in that particular part of the production process by supplying several customers requesting the same type of items, as opposed to relying on a unit which served just one, in-house "customer". As a result, subcontracting became widespread.

The second process entailed the blurring, or, occasionally, the elimination of barriers between different hierarchical layers and departments of the same organization, as well as between those of different organizations (Sabel 1991; Bowman and Kogut 1995a; Drucker 1990; Manz and Sims 1987; Nishiguchi and Anderson 1995). The changes occurred because of two groups of interrelated reasons - their common ground being the need to increase the adaptability of organizations. On the one hand, as competition intensified, lowering production costs and shortening development-cycles became imperative. On the other hand, specialized machinery was replaced by generalized (flexible) machines.

The latter change came about because, among other reasons, small niches could absorb significantly shorter runs of the same product. As a result, enormous investments in dedicated machinery, which

¹²But not the only one. Another possibility has been to pool together so far separate markets around a single standardized product, thereby shielding one's organization from the new uncertainties. Probably the most famous example of this was the 'world car' strategy of American car companies. This strategy, however, proved to be less successful than the ones mentioned below. See e.g. Piore and Sabel 1984, pp. 197-202.

¹³Paradoxically, the emergence of technologically intensive mass markets from the early 1980s has had a similar effect (Garud and Kumaraswamy 1993; Cusumano and Selby 1995).

¹⁴This form of subcontracting, described further in greater detail, is different from dualist subcontracting. Dualist arrangements, in which the subcontractor is a buffer against fluctuations in demand, are rife with distrust. Such relations fall under our second ideal type. On the two forms of subcontracting, see eg. Nishiguchi 1994, pp. 90-139; Womack, Jones and Roos 1990, pp. 138-168.

could be recouped only by producing masses of the same, standardized product, were no longer feasible. It was more profitable to invest in generalized (flexible) machinery which could be adapted to the quickly varying set of gadgets produced by the same organization. This, in turn, augmented the value of skills on the shop-floor.

Both the introduction of flexible machinery and the need to reduce costs and shorten development cycles increased the importance of organizational learning and, consequently, heightened the interdependence of previously compartmentalized areas of knowledge within organizations. Conception and execution were no longer separate activities. Designs became profitable only if they could be inexpensively manufactured, and correct decisions regarding economical investments in flexible machinery became viable only on the basis of an understanding of design adequate enough to allow considerations of the appropriate range of flexibility (Sabel 1991, p. 27.). Also, in quickly changing markets, where firms often moved into uncharted territory, manufacturing of the prototype started before the specifications were complete, thereby providing design engineers with feedback about the feasibility of various options (IEES Spectrum 1991).¹⁵ Moreover, the engineering possibilities of flexible machines could be exploited only by relying on the first-hand experiences of the people working on them. All of this prompted the integration of the design and manufacturing operations. Consequently, decision making about producing a gadget was increasingly done in units comprising different functional areas of the organization where no representative of any specialty could perform an unequivocal leading role.¹⁶

The emerging networks of several specialists were not rigid, in the sense that roles and positions became malleable - a design engineer had to consider manufacturing problems, just as the worker on the production-line became involved in quality-control issues. The new groups were characterized by studied trust, as emphasis was placed on joint problem-solving based on an efficient information-flow between the parties, as well as on continuous improvement by questioning established practice, while (partly as a result of questioning routines, partly as a result of increasing interdependence) hierarchical relations became blurred (Manz and Sims 1987). Studied trust has led to increasing flexibility, as diminished suspicion increased the parties' willingness to question established ways of doing business (and to question status), as well as to explore new avenues of practice.

Similar changes took place between different organizations. It became difficult to define where one organization started and another ended, and the traditionally well-defined roles between client firms and subcontractors became fluid. The need to reduce costs and development-cycles induced firms to seek other companies that would take greater responsibility in designing parts of their product

¹⁵Contrast this with an account of traditional manufacturing operations: "Traditionally, ...manufacturing would wait until a product was completely designed with all drawings final. Then the drawings would go to industrial engineering, who would work out the process, and then on to the shop. They handled the interdependencies by taking plenty of time to work issues out. Not surprisingly, each department also blamed the other for taking too much time." (Dougherty and Cohen 1995, pp. 88-89.)

¹⁶Cooperation between various organizational layers has been further reinforced by the introduction of Just-In-Time manufacturing systems (Klein 1987).

(Sabel 1991, p. 28; Nishiguchi 1994, pp. 125-133; Herrigel 1996, pp. 239-244 and 251-3.). Since companies often lacked the particular expertise needed in the particular production area in which they wished to subcontract, they often resorted to "black-box" design. In this arrangement, the client provides only vague specifications of the product to the subcontractor, which are concretized through iterative communication. Again, what is to be produced and how is decided in a group of interdependent parties, none of whom has direct command over the other. Their mutual interdependence requires and prompts the actors to be very open about the way they manage their business. Hiding what, in a dualist subcontracting arrangement, would be proprietary information, would hurt the competitiveness of all members of the network by leaving opportunities for improvement unexplored. The result is the development of studied trust - and increased flexibility - through heightened interdependence and the continuous questioning of past practice.

Flexibility Based on Distrust

We shift our attention now, moving from the turbulent worlds of modern industry into the tempestuous realms of the Sicilian and Russian mafias and Italian corruption-networks. They will be the stages for the demonstration of our arguments in this section since they are the central fields where games imbued with distrust unfold.¹⁷ These environments are not only characterized by a high level of distrust among individuals; they are also the fora where *substitutes*¹⁸ to a pervasive lack of trust are elaborated.¹⁹ The mafia is a specific 'industry' providing private protection to mutually distrusting agents (Gambetta 1988c, 1993; Varese 1994). One of the factors behind the development of widespread corruption is citizens' distrust in the efficiency and impartiality of the state (della Porta and Vannucci 1994).²⁰

Distrust and Robust Action

Agents pursue flexible strategies in these environs, but these strategies are remarkably different

¹⁷For patron-client networks, the third environment of pervasive distrust and private protection, see especially Padgett and Ansell 1993.

¹⁸We emphasize that these institutions provide only substitutes - and very imperfect ones, as we shall see - to trust. See e.g. Gambetta 1993, pp.24-28; 1994c.

¹⁹Markets of private protection have certain characteristics which, acting as intervening variables, reinforce actors' incentives to perform some of the strategies outlined below.

²⁰In spite of this similarity, some of its consequences, and the fact that the two different versions of private protection might coexist (Gambetta 1993, pp.214-220; della Porta and Vannucci 1994, pp.246-248) the above two phenomena are, in various ways, very different from one another. See e.g. Gambetta 1994c, p.293; della Porta and Vannucci 1994, p.250, n.16.

from the ones examined in the previous section. While in conditions of studied trust actors can 'afford to be' flexible because they assume that (almost) nobody will take advantage of their various forms of behavior, in fields of pervasive distrust actors are flexible because they assume that others will take advantage of everything that they might do. Approaching another party with distrust, skillful actors (Leifer 1991) are careful not to reveal their willingness to acquire a specific role. "A coveted role is acquired when it is both taken and given." (Leifer 1988, p.867). Exposing one's intentions makes one vulnerable: "[t]he vulnerability of trying to step directly into a role with unilateral role behavior stems from the power it confers on the role complement to define the role setting...[that is to say, it] stems from (1) A's *dependence* on B for a response that reinforces A's role claim; and (2) the *alternative* responses open to B." (Leifer 1988, p. 866) Once A has signalled her intentions to acquire a specific role, B can - if he has some freedom of movement - very well refuse her access to it, thereby making A the loser of the game. Moreover, this result partly marks what A is by rendering evident what she is not, and thereby it reduces her flexibility to capture other positions in the network.

While the mutual definition of roles is a characteristic of all interpersonal encounters (e.g. Bourdieu 1990, pp.80-1), we probably devote particular attention to it in conditions of distrust, *when we specifically assume that the other party will take advantage of our consequent vulnerability*. In such circumstances, the best strategy is not to evade typifications altogether, but to ensure that one is typified in many ways at the same time - hence the importance of flexibility - while, with the same action, locking others into identifiable roles, thereby limiting their possibility of doing the same to ego.²¹ If A's actions are left ambiguous, their interpretation is up to B,C,D... who, by committing themselves to a specific understanding of A's actions, make themselves vulnerable to A. The key is not simply to hinder unequivocal interpretations of one's actions, but to make sure that everybody translates, misunderstands one's actions according to *their* revealed goals, preferably each interpretation differing from the next. By revealing little, the robust actor induces others to interpret her actions as *they* see it. As a result, each interpretation can not only be denied when necessary, but also played against the others, thus further increasing the robust actor's flexibility.²² The likelihood of ego locking into specific roles can also be avoided by reducing accountability through appearing reactive, acting only on alter's initiative.

As opposed to environments of studied trust, the aim here is not mutual flexibility, but of achieving one's flexibility at the expense of that of others. Ideally, in this context, ego's flexibility is an increasing function of alter's rigidity.

The flexible strategies of agents operating in conditions of pervasive distrust are based on these

²¹(Leifer 1988) denotes it local action, (Padgett and Ansell 1993) call it robust action.

²²(Padgett and Ansell 1993, p.1264) nicely formulate the essence of this strategy: "[c]rucial for maintaining discretion is *not* to pursue any specific goals. For in nasty strategic games,...positional play is the maneuvering of opponents into the forced clarification of their (but not your) tactical lines of action. Locked-in commitment to lines of action, and thence to goals, is the product not of individual choice but at least as much of others' successful 'ecological control' over you...Victory in [such games] means locking in others, but not yourself, to goal-oriented sequences of strategic play that become predictable thereby."

principles. Mafiosi are well-known for their reticent way of expressing themselves (e.g. Gambetta 1988c, p.165.). Besides their Laconic expressions, mafiosi are likely to use "cryptic signs, allusions and metaphors", which can give rise to a number of different interpretations (Gambetta 1993, p.121).

Likewise, corrupt politicians avoid making explicit political commitments. They rarely give political speeches or statements of their program that would lock them into a concrete ideological position and limit their freedom of movement in the political arena. "Maybe there were notices hanging in the squares to announce [Alberto Teardo's]²³ speech, but someone substituting him usually arrived, holding in his hand a telegram from comrade Teardo, who excused himself for not being able to participate in the event." (della Porta 1992, p.46) Corrupt politicians rarely link themselves to a particular current within their party for a long time (della Porta 1992, p.47). In order to reduce responsibility for one's own actions, and thereby to diminish the likelihood of being locked into specific roles, corrupt politicians act reactively, "A nurse wanted to get her son into the Sacco? Very good, let's get on with it. The comrade needed a place to live because he has been evicted? Very good, let's try to find him an apartment...The doctor at the hospital wished for a transfer from one department to another? Very good, let's put pressure on the administration" (della Porta and Vannucci 1994, p.219)²⁴.

Inscrutable Markets and Gossip

There is another group of reasons why people are likely to guard information and release it selectively in those realms of widespread distrust where private protection is supplied. Protection is a good which is valuable only if it is the best one available. Having second best protection in a particular setting is like having no protection at all since it can be always eliminated by the best protection available. (Gambetta 1994b, p.357; della Porta and Vannucci 1994, pp.331-2) Consequently, both protectors and protectees look for signals that would reveal a protector to be the best possible. Another reason why signals of being the best protector and the reputation to which they give rise are important is that holding the reputation of being the best protector greatly saves on the production costs of protection. If one is successful in convincing prospective challengers that they 'do not have a chance' they are unlikely to test the protector.²⁵

The problem is that signals of being *the best* protector are extremely difficult to find. Past performance is not always a guarantee of future success. Markets of private protection are often *inscrutable*: neither buyers nor sellers have a good idea of the quality of the good involved (Gambetta

²³A politician of the Italian Socialist Party, the leader of a group of corrupt politicians and civil servants active in the 1960s and '70s in Savona, known as the *clan Teardo*.

²⁴The authors cite Andreoli, M. 1993. *Andavamo in Piazza Duomo*. Milano: Sperling & Kupfer, pp.42-3.

²⁵This relationship is stronger in the mafia where assessment costs are extremely high - the costs of being proven wrong in the test of being the best protector is usually death - as are those of protection - often murder. (Gambetta 1994b, pp.355-57) However, the relationship can be observed in corruption markets as well (Della Porta and Vannucci 1994, p.335).

1994b). Both parties find out the quality of protection only after it has been put to the test.²⁶ Consequently, the production of honest signals, those which would be correlated with quality, proves to be very difficult. Protectors, instead, try to rely on symbols (Gambetta 1994b): signs which are arbitrarily related to quality. These are, ideally, easier to rank than the qualitatively elusive protection and difficult to pirate.

The arbitrary relationship of symbols to the good itself causes further confusion. It is always uncertain which among the many behavioral characteristics displayed by protectors is a *true* arbitrary signal. Since signals are not always *signaled*, almost anything might be a sign about the relative standing of competing protectors. This, on the one hand, prompts protectors to be even more cautious with revealing any information about themselves. On the other hand, both competing protectors and protectees alike ceaselessly scrutinize every aspect of protectors' behavior. Information exchange, in these environments, is, to a great extent, *gossip* (Gambetta 1994a). Gossip, however, often creates more confusion than it eliminates.²⁷ Gossip does not require truth (Gambetta 1994a, pp.211-2); moreover, gossipers are often concerned with "deducing wholes from minutiae" (Gambetta 1994a, p.213). This last factor can partly defeat the purpose of getting information by often leading to inaccurate conclusions.

Distrust and Blind Trust

As we have pointed out earlier, in environments of pervasive distrust, being successfully flexible means locking others into rigid ties and well-defined roles.²⁸ Strategies which aim to strengthen the consequent relations of dependence rely on the coexistence of distrust and blind trust. Blind trust is likely to be frequent in conditions of widespread distrust since, in such conditions, there is a contradiction between the highly desirable act of trusting someone and actors' underlying pessimistic expectations. When making an exception from the rule by trusting somebody, agents have to perform a reduction of cognitive dissonance (Gambetta 1988b, p.223; 1993, p.46.). The result of the reduction of cognitive dissonance is blind trust, where one does not so much trust an actor because one expects, rather than because one *wishes* him to be trustworthy.²⁹ The propensity for establishing such overly trusting relations is further augmented by the confusion about the reliability of information. Trust is an

²⁶It is true if there is competition among protectors. This happens most often among mafiosi but it can be perceived in a corruption market as well. See e.g. della Porta and Vannucci 1994, pp. 337-9.

²⁷Largely as a result of the unreliability of gossip, "[t]he mafia is fraught with uncertainty, distrust, suspicion, paranoid anxiety, misunderstanding: who is the stronger? Who will be the successor? Is Don Peppe really a mafioso? Is he about to attack another Don Peppe? Is Mr X really protected by Don Peppe or just pretending? Is Don Peppe still strong enough to protect Mr X?" (Gambetta 1994a, p.220)

²⁸It is important to emphasize here that relations of dependence are the results of success. We shall return to this point.

²⁹"Distrust may be an unaffordable luxury for those with no alternative course of action." (Gambetta 1993, p.26)

expectation - which we form on the basis of our knowledge of the other party's dispositions, interests, commitments (Dasgupta 1988, p.51). In inscrutable markets, there are too few truly reliable signals on which to form dependable expectations, while, at the same time, there is an overabundance of possible signs of future behavior. Whereas such overabundance can cause confusion about learning the correct strategies of actors, it can be an excellent source of rationalizations of desired behavior - that is, of granting trust.

We can see the work of blind trust in the way in which protectees view their protectors. Mafiosi were often reified by their customers as early as the nineteenth century. "[There is a] tendency to turn the mafioso into a legendary type, a feeling natural enough indeed in a professor of literature, but much harder to explain in wealthy landowners."³⁰ Corrupt politicians are also overly adored by their followers. "Among the entrepreneurs, there was a real and proper rivalry to present oneself as the friend of this or that politician, to be solidary to him in everything and for everything. 'Your successes are my successes, your ideas are my ideas', in a whirlpool of complicity." (della Porta and Vannucci 1994, p.334).³¹

Flexibility and Rigidity

In the above paragraph, we implied that the providers of private protection usually have the upper hand over their protectees - the fundamental reason being that they offer an inscrutable substitute for a good that is in short supply³². The resultant asymmetric relationships help the providers of private protection to reduce their dependencies that would arise from trusting people in environments of pervasive distrust. They often further decrease their demand for trust by exploiting, moreover frequently reinforcing their protectees' tendencies to blindly follow them. By establishing relationships in which their partners are dependent on them, their expectations of others' behavior will be more grounded on their knowledge of others' interests and constraints than *vica versa*. In realms of widespread distrust, such relations of dependence are used to gain control as well as to get action (White 1992). When people are reluctant to make commitments to any course of action there is special emphasis on decreasing the prospects of alter strategizing against ego as well as on increasing the probability of alter following ego's requests (or, more aptly, orders). Widespread distrust, by increasing actors' motivations to minimize their vulnerabilities, prompts them to satisfy these aims by establishing relations of dependence.

³⁰Franchetti, Leopoldo. [1876] 1974. "Condizioni politiche ed amministrative della Sicilia." Vol.I. in *Inchiesta in Sicilia*, edited by L. Franchetti and S.Sonnino. Firenze: Vallecchi, p.34. Quoted in Gambetta 1993, p.46.

³¹Quoted from Andreoli, M. 1993. *Andavamo in Piazza Duomo*. Milano: Sperling&Kupfer, p.114. Displays of such attitudes to protectors can be used instrumentally as well. We shall return to this point later.

³²While the direction of this relationship is generally true, it is rarer to observe it in corruption networks where several scarce goods can be exchanged in more than one direction (e.g. protection for votes, protection for protection, etc.) and, especially if corruption is widespread, the organization of providing private protection can be very complicated. See e.g. della Porta and Vannucci 1994, p.250, n.16; pp. 357-365.

The mafiosi's willingness to resort to violence in order to achieve the compliance of their protectees is probably the strongest indicator of this strategy.³³ Even when corrupt politicians are protected by the mafia, the two parties do not have the same options. While the mafioso might refuse to comply with a request, in the politician's case it is usually unthinkable. As Antonino Calderone, a mafioso turned state's witness explained: "When I was in Sicily, many politicians were involved with the mafia. [They]...asked for serious, engaging help from the men of honor. Normally, the mafiosi did these favors, but they could also say no...But when the mafiosi asked for a favor from the politicians, there was no choice: they had to do what was asked from them." (della Porta and Vannucci 1994, p. 387)³⁴

Corrupt politicians often relate to their followers with extreme arrogance - that is to say, by emphasizing their capacity to be flexible at the expense of their protectees - in order to underscore and thereby augment the asymmetric character of their relationship. (della Porta 1992, p.49). The intended result is to increase the protectees' sense of dependence on the corrupt politician, and consequently, to enhance their blind devotion to him. Underscoring relations of dependence is used not only for gaining control but also for getting action. Pizzorno speaks of the 'vicious circle of arrogance' (Pizzorno 1992, pp.10-11), in which arrogant behavior, by augmenting one's reputation of being powerful, leads to a concentration of requests on the corrupt politician. This enlarges the group of his supporters, which increases his political power, thereby leading to an even greater ability to make arbitrary decisions - over more salient matters.

So far, we have portrayed asymmetric relations as the result of robust (flexible) actors acquiring control in worlds of widespread distrust. Success, however, is not guaranteed, flexibility does not necessarily lead to victory. In environments where players rarely trust each other, robust actors often face other robust actors.³⁵ In such situations, if both partners are skillful, they 'organize for involvement' (Leifer 1990, 1991, 1995). Their aim will be to maintain equilibrium, to deny the other party the accurate reading of their strategies, and thereby to avoid their partner gaining control over them. In such circumstances, even the appearance of control can hide a different reality. An agent might take on the role of the submissive follower not only to acknowledge his dependence, but also to ease his protector's suspicion and gain a greater room to maneuver. Several entrepreneurs have tried to implement this strategy in corrupt environments. "For example, the Merlos' firm was commonly known to be 'in the socialist area', but the entrepreneurs have reached the conclusion...that the best strategy was 'to rely on the [Christian Democratic Party] for national matters, and on the [Socialist

³³There are several other reasons why the world of the mafia is so violent. See Gambetta 1993, pp.40-43.

³⁴The authors quote Arlacchi, P. 1992. *Gli uomini del disonore*. Milano: Mondadori, p.210.

³⁵This situation presupposes at least a relative equality of the parties in terms of the quantity of resources with which they are endowed - not forgetting that resources are often socially constructed (Latour 1988). In light of what we have said so far about the different worlds of private protection, this is most likely to arise in a corruption framework.

Party] for local ones.' " (della Porta and Vannucci 1994, p.337)³⁶

Hedging Between Studied Trust and Distrust

Flexibilities

We have to move beyond the above two ideal types in order to understand the flexible strategies of most actors under conditions of uncertainty. One's flexibility is rarely based *solely* on studied trust or distrust. Firstly, people rarely grant trust to a person without qualifying what the action in question is. Trust is "a three-part relation: A trusts B to do X" (Hardin 1993, pp.506-7). There probably are actions in which we are unwilling to make ourselves vulnerable to another party even if we trust her in many other respects. This is likely to be an issue in uncertain environments where interests related to commitments in future actions are likely to undergo substantial change. In such circumstances, actors are both probably unwilling to test the commitments of others to the maximum and hesitant to make others very dependent on them - even if renegotiations are possible among the parties. Relatedly, in today's industry, constitutional orders are rarely complete institutions of work or business. A fundamental question for most constitutional orders is to which matters the jurisdiction of constitutional orders should be extended, and which matters should be organized outside them. Conversely, even if we live in a world paralyzed by pervasive distrust, there are likely to be matters in which we negotiate our flexibility as members of a group - and we can find related examples even in the mafia, as we shall see below.

Secondly, these considerations acquire importance because operating in two (or more) separate worlds grants an actor such possibilities for flexibility which few players, operating in uncertain conditions, would be ready to sacrifice. To put it another way, accepting the assumption that actors hedge in uncertain environments (Sabel 1995c; Sabel and Zeitlin, forthcoming), we also have to entertain the thought that the dimension of granting trust will be governed by this principle as well. It is likely that actors' flexible strategies will be based on recombinations of granting (and creating) studied trust and exploring solutions that reduce their demand for it.³⁷ Agents, in most uncertain environments, sustain their flexibilit(ies) probably through mixed strategies of, on the one hand, establishing mutually redefinable identities, on the other, attempting to gain control over their partners.

To the extent that actors operate in realms where several organizing principles are at work at the same time (which is valid for the Hungarian economic transformation [Stark 1996; Voszka 1995]), it becomes difficult to find any overarching utility function on the basis of which one could calculate the right mix of the different (flexible) strategies. Consequently, rational choice-based theories of cooperation (Axelrod 1984; Taylor 1987) cannot be fully adequate guides in these realms. In such circumstances, most agents are likely to exploit, rather than resolve, the dilemma of *the combination or*

³⁶Partly quoted from L'Espresso September 20, 1993, p.38.

³⁷Central to this idea is the thought that trust can be not only a by-product of otherwise differently directed behavior, but it can also be fairly purposively created among actors. See e.g. Gambetta 1988b, pp.232-235; Sabel 1992.

separation of adaptability and accountability.

We can see these principles at work in several different settings. One of the biggest conflicts in the decentralized sectors of today's German industry is between the country's traditional craft system and attempts at introducing team-based manufacturing (Herrigel 1996, pp. 193-204; 1994; Sabel 1995a). The two ways of organizing production operate according to antithetical principles. In a craft system, the flexibility of the craftsman is based on his professional autonomy, pertaining to him in recognition of his special skills. He is flexible because nobody has to *and should* tell him what to do; he, however, precisely since he knows what he is doing, can and should direct a group of apprentices. In team-based manufacturing, as we have seen above, team-members' flexibility results from their close interdependence; they participate as equals in elaborating design and manufacturing solutions. German companies' problem is that the second system clearly outperforms the first; however, craftsmen's staunch defense of *their particular type of flexibility* can only lead to recombinations. In the emerging solutions, craftsmen usually retain some clout over certain parts of the production process, while teams gain governance over others. Flexibilities, in these schemes, are seen to be guaranteed by a combination of one's independence from others and one's engagement in joint exploration - and action - with the same units.

On the other side of the spectrum, even mafiosi manage to cooperate sometimes. An important forum in the Sicilian mafia is the *commissione* which is a cartel of mafia families within a Sicilian province. The commissione regulates the use of violence and makes decisions in problematic cases of succession (Gambetta 1993, pp.112-8). Its operation, however, is far from infallible, and mafia families play a careful game of combining independence and collaboration in order to gain the greatest possible room to maneuver.

We have found similar hedging strategies among Hungarian entrepreneurs. In a study of a construction market of a Hungarian city of 110,000 inhabitants, we have observed entrepreneurs performing a cautious balancing act among the strategies of competition, cooperation and corruption (Kemény 1996). In their uncertain environment, maintaining their flexibilit(ies) is of paramount importance. A crucial question is the right mix of means through which the advantages of flexibility can be maximized. While a tightly knit social fabric resulting from their previous work-relations³⁸ could generate enough trust to prompt them to engage in market-sharing cooperative arrangements, the fact that they regularly compete in several settings at the same time (either in terms of price and quality, or in terms of corrupt ties) for orders which are of varying importance to them makes their collaborative networks difficult to organize.

The result is a mixture of arrangements the structure of which changes with time. A salient question in these "networks"³⁹ is the extent to which their constituents are willing to collaborate with each other. While most entrepreneurs help one another in small matters (like lending raw materials, or

³⁸The majority of the entrepreneurs have been each others' colleagues within a now defunct socialist dinosaur.

³⁹Since action takes place among a constantly varying set of actors the boundaries of the network are often difficult to define. I am grateful to David Dornisch for this point.

even workers), only a few reach the point where they coordinate their offers in some (but never all) markets. A frequent intermediate formation is one in which a number of companies boost each other's flexibility by continuously redefining their identities and their relations to one another through participation in various, and often complicated subcontracting arrangements. In other realms, the same entrepreneurs continue to compete with each other in terms of price and quality; and again in others they keep using their corrupt ties to snatch a contract while relegating their friends to the sidelines. Not all entrepreneurs combine the different strategies of flexibility in the same way; while some predominantly rely on corruption, others combine collaborative subcontracting with competition, and another group attempts to balance the three strategies with each other.

In my research, I wish to investigate the hedging strategies that owners and managers of small- and medium-size enterprises perform among the different ways of gaining flexibility in the Hungarian economic transformation. Both the remarks of Stark and Gábor, quoted earlier, and my empirical study suggest that most flexible strategies pursued by this group of actors fall inbetween the two ideal types. My research will be exploratory. The primary aim is to gain an understanding of the different flexible strategies followed by actors between the two ideal types. Agents get action on the basis of different principles whether they act in the framework of flexibility based on studied trust or distrust. They entertain dissimilar typifications and expectations about each other, treat information differently, and generate distinct types of social action vis-a-vis one another. When actors combine the two principles of flexibility (there are probably several ways of doing this) a considerable amount of work (Boltanski 1996b) must be involved in bridging the gap. Our principal focus will be to comprehend this bridging activity and the synthesized flexible strategies to which it gives rise.

Production Markets with Uncertain Roles

The concrete setting in which I intend to examine actors' hedging strategies among the different forms of flexibility is a particular type of production market. In the writings of Harrison White (White 1981, 1988; Leifer and White 1987), production markets are stable role structures. Products are distinguished in terms of quality; these distinctions are manifest in different volume-revenue combinations. The existing quality-volume-revenue combinations form the menu of possible roles in the market, linked to a specific set of companies. Producers select roles (market niches) in order to gain the greatest amount of profit (within a limited set of opportunities) by watching the behavior of other producers in the previous period. Provided that producers' costs do not change from one period to the next, producers, when reconsidering the possible quality-volume-revenue combinations against their variable costs at the beginning of each period, reselect their previous role for future activity. *"[E]ach enterprise assesses its situation in each cycle and reaffirms that its niche in a structure of niches is where it is best suited."* (Leifer and White 1987, pp.89-90, italics in the original)

This is a picture of market stability. White concentrates on the reproduction of particular markets as role structures. However, not all markets are stable. To the extent that relatively homogeneous producers (in terms of technical ability and variable costs) compete for ever varying sets of unique projects, market roles are subject to gaming among producers. In such conditions, (re)producing certain market roles becomes problematic. Construction markets in Hungary's larger cities⁴⁰, like the one that I have examined (Kemény 1996), provide an example.

⁴⁰Probably over 100,000 inhabitants.

Construction markets in Hungary's larger cities usually satisfy the following set of criteria:

(i) There are several producers in the market with a similar range of abilities, technical as well as costwise. General contractors are usually capable of performing almost all activities involved in constructing buildings of various shapes and sizes, from simple one-family homes to fancy office-buildings. The range of skills they command can also be employed separately, in subcontracting work as well as in smaller projects, like roof-repair or painting and decorating.⁴¹ Consequently, companies can compete in several different market segments, sequentially, or at the same time.

(ii) The projects for which contractors bid are evaluated along many different and, among projects, varying sets of criteria, of which price is only one. Although projects are not entirely unique in terms of the requirements that successful bidders have to satisfy, there is great variation among them, rendering specialization difficult. Each time a contractor bids for a project it is likely that he has to establish his "equivalences" (Boltanski 1996a) vis-a-vis other contractors in different terms. One of the main reasons behind this is the fact that (at least in Hungary during the transformation) most buildings are individually commissioned. When the customer defines the product the likelihood that standardized items can appear on the market is relatively low.⁴²

(iii) Different projects are performed in dissimilar social organizations among producers. There is rarely a one-to-one correspondence among projects and producers - probably its simplest reason being that projects' requirements of resources either exceed or are less than what individual contractors can offer. Usually several contractors work on the same project, and a contractor is involved in more than one projects at the same time.

In these conditions, roles are unstable in the market in the sense that they are difficult to reproduce from one period to the next. Even if companies' market roles do not change in time - which, we would argue, is quite unlikely in the aforementioned conditions - *there is significant work (Boltanski 1996b) involved in their reproduction*. Companies do not occupy market niches on the basis of a particular activity for long because a new set of projects redefines how specific market roles can be achieved. The distribution of roles is subject to significant gaming. The information revealed ex-post by producers' behavior is an inadequate indicator of the way roles should be pursued in the next one. Taking the activity associated with the role that one occupied in a period as something to be copied in the next one is a likely recipe for failure. The dimensions along which an actor won a project in one phase is an imperfect indicator of relevant dimensions to be emphasized in the next one.⁴³ In

⁴¹This is usually the case even if a contractor is relatively small. Besides contractors, typically other participants of the construction market also command multiple skills. For example, larger companies of painters and decorators are likely to employ insulation specialists, bricklayers, floor-cover specialists, etc. While such companies can undertake all the covering and decorating activities in a building, their various specialists can be employed separately, on diverse projects as well.

⁴²Although some contractors try to diminish their risks by initiating property development projects - where contractor(s) 'define' what the product is - at this moment such initiatives are rare and very few contractors are only property developers.

⁴³Companies are more often busy building reputations rather than *a* reputation. On the one hand, companies intend to associate such vague terms with themselves which can appeal to almost all segments of the market (excellence in quality; prompt service, etc.) and can be suitably interpreted

such settings, flexibility is associated with success; stability of activities is usually viewed as rigidity, and as such, a basis of failure. In these markets, the best way to occupy one's resources, as well as to insure the capacity for future involvement, is to covet several roles at the same time, to have stakes in the high, as well as in the lower ends of the market; to build office buildings for 'blue chip' companies, to participate in school-renovations, to construct family-houses in the suburbs and to use one's spare painting crew in a small project in the same period - while contemplating hospital-building and factory-construction in the next one, thereby intending to invade niches occupied by other actors earlier.⁴⁴

Such markets have two interconnected features which are relevant for the purposes of our research. Firstly, since projects differ from one another, actors need to establish equivalences vis-a-vis their competitors in different terms when they are bidding for each undertaking. Bidding is rarely only in terms of price; technical expertise, aesthetic qualities, timing, brand of protection, etc. all come into play, and their specific configuration varies in each project. Secondly, different combinations of equivalences usually correspond to dissimilar social organizations of production. This arises, on the one hand, because actors can satisfy different evaluative criteria by organizing production in diverse ways; on the other hand, since different projects are viewed by distinct producers in different frames (Goffman 1974) dissimilar configurations of producers are willing to participate in them. The prerogative of meeting diverse evaluative principles - within projects and among different ones - requires considerable flexibility. The need to organize production in dissimilar ways in different projects - and often in different phases of the same project as well - probably implies that flexibilities are achieved on the basis of a combination of flexibility based on studied trust and distrust. Actors are likely to combine dissimilar strategies of flexibility when they are bidding for, as well as when they are working on, different projects.

In order to understand how different forms of flexible strategies are combined, I intend to investigate construction companies' attempts to (re)produce roles in their market(s). I wish to examine the bidding activities of building contractors, as well as the strategies they employ vis-a-vis their business partners while completing their projects. How do they combine their different social resources in order to satisfy dissimilar sets of distinct evaluative criteria at any time? What are the arrangements through which companies corrupt certain officials while creating an understanding with some 'competitors' that the partially protected niche is not fair game? How can they compete with the same people in another setting, while collaborating with them in yet another one? What is the content of the emerging ties in such settings - how do actors view each other, and what kind of actions are acceptable? What is the work involved in balancing flexibility based on studied trust and distrust? While projects are under way, how do contractors blend dualist subcontracting arrangements with

(Latour 1988) to almost any particular context; on the other hand, they market their abilities in several different activities. While establishing an unequivocal reputation related to a particular activity can be advantageous as it may be used to create a protected market niche, such a strategy is risky for *most* actors in markets where producers' abilities are relatively homogeneous and products vary greatly in time.

⁴⁴In the language of organizational ecologists, these organizations are *polymorph generalists*. (See e.g. Hannan and Freeman 1989, pp.110-114; pp.310-311.)

collaborative subcontracting? How are subcontracting relations modified when a new criterion suddenly crops up during a project?

Undertaking the research in Hungary will have at least two advantages. On the one hand, the uncertain conditions of the transformation (beyond the above, general characteristics of the markets in which they operate) probably further induce actors to maintain their flexibilities, and to do it on the basis of hedging strategies. As a result, this setting is likely to be particularly rich in practices aimed at gaining flexibility, especially in those which combine the principles of our two ideal types. On the other hand, studying these strategies in the Hungarian setting will also allow us to learn more about the consequences of the institutional uncertainties of the transformation. The institutional uncertainty of the Hungarian economy has been cited as the cause of several negative consequences, from actors' unwillingness to invest in capital-intensive technology and markets, to widespread opportunism, and the 'too many and too small' character of individual small business undertakings (Gábor 1991, 1992, 1996). I contend that one of the main reasons behind these phenomena is the special attention that actors devote to maintaining their flexibility in the Hungarian setting. Unfortunately, so far, no systematic analysis has been conducted on actors' strategies that would give an account of the direct link between (institutional) uncertainty and the associated, usually negative consequences. Since my focus will be on understanding the flexible strategies performed by a certain part of Hungary's small and medium-size enterprises, I hope to contribute to a greater comprehension of these mechanisms.

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