Macro and Micro Economic Factors of Small Enterprise Competitiveness

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Abstract: Our assumptions, made on the basis of evaluating completed questionnaires that have been returned reflect our impressions. During the survey, businesses considered developments in the business environment as definitely favourable. In addition to reporting increasing uncertainty, they deemed Hungary's political climate in the last years, domestic markets and social changes as having marked effects. After Hungary's accession to the European Union, small and medium sized enterprises (SMEs) cannot perceive major impacts of accession, or blame the prevailing political situation for all changes. Small businesses do not capitalize on the opportunities offered by the European Union, do not make efforts to apply for EU grants and funds, or do not attempt to penetrate new markets. In our opinion, the companies participating in our survey are not aware of the opportunities available to them. Among the economic policy factors, a reliable monetary policy has the most benevolent impact on the operation of businesses. A survey of micro economic factors shows the most important areas to develop.

Keywords: competitiveness research environment; economic policy factors; effects of EU enlargement; environmental factors and responses; micro economic factors

1 SME Competitiveness Research Environment

Several institutions conduct SME research in Hungary and the neighbouring countries: universities, colleges, and research and development institutions. Below we shall only look at one segment of the research to evaluate the factors of competitiveness of the Hungarian SMEs, or more specifically family businesses, leading to conclusions on the competitiveness of SMEs through their review.

The Competitiveness Research Centre attached to Budapest Corvinus University Corporate Economics Department has analysed the competitiveness of Hungarian companies since 1995. Its latest report published in 2004 contained the following chapters, analysing the main factors of competitiveness (10):

- Environment of corporate operation
- Corporate strategies, strategic management

- Organisation and operation
- Impacts of EU accession

The majority of the companies involved in the research are medium-sized and large companies, and the share of small companies is only 5%. Consequently, the conclusions apply mainly to large companies, therefore, and the description below does not relate to them.

The situation of SMEs is regularly analysed by the Small Enterprise Development Institute and, after its integration into the Ministry of Economy and Transport, the ministry, in an annual report. The structure and methodology of the reports is consistent, looking at the factors affecting the situation and development of SMEs according to the following criteria (11):

- Ownership structure
- Participation in networks
- Capital investments
- Revenues and export
- Profitability
- Productivity, efficiency
- Financing

The questionnaire-based survey of the Ministry of Economy and Transport, conducted in 2003, contained the following key conclusions:

- Approximately, two thirds of SMEs consider that the economy of the country is stagnating or slightly improving; they mainly sell in the retail market, and they have moderate development, for which they rely almost exclusively on their own resources.
- 16-20% of SMEs are in the initial or declining phase of their lifecycle; they consider their situation bad and have a pessimistic future vision as well.
- 15% of SMEs are in the phase of growth or maturity with a good position and optimistic future vision. The analysed factors of competitiveness are positive, and these enterprises use bank loans for their development projects as well.

In summary, in terms of status analysis, the research conducted on approximately 2000 enterprises has brought more unfavourable conclusions compared to the previous surveys. Despite many valuable conclusions, the report does not provide any closer guidelines for research in terms of definition or influencing factors.

Professor Mugler, who has been devoting his literary and public life activities to the research and development of the SME sector for many years, defined the two main directions of research in his first book as follows (12):

- Definition of the concept of entrepreneur and analysis of his impacts on economic development.
- Distinction of SME strategic potential, primarily in the different phases of the lifecycle.

Consequently, he analyses in detail the issues of strategic planning, marketing, controlling, and resource management as well as the SME basis. In fact, he considers these aspects the key areas of the viability and development of SMEs.

In his second book, Professor Mugler (13) analyses the key factors of development, breaking them down into external environmental factors and internal (resource) factors. Looking at typical changes, he tries to identify the specific driving forces for the development of SMEs in the different phases of the enterprise lifecycle using various development theory models.

Professor Belak approaches the development abilities of SMEs from the management side. He also divides the influencing factors into external and internal factors, structuring development potential as follows (14):

- Political, strategic and operational opportunities.
- Coincidence of development potentials, i.e., availability of resources required for the opportunity within the enterprise.

In terms of the opportunities and problems of Slovenian enterprise development, he reaches the same conclusions as those which apply to most reform countries in the 1990s. He lists the following main influencing factors of SME competitiveness, which typically hindered development at that time:

- Harmony between competition opportunities and operational performing ability,
- Social, economic and partner relations,
- Crisis and change management experiences (lack of them),
- Future vision ('survival' enterprises),
- Harmony between organisational and personal potential.

Assistant Professor Mojca Duh analyses the role and importance of organisation and personal relations on the example of Slovenian enterprises (15), which typically determined the developing capability and competitiveness of a large number of SMEs.

MER Evrocenter (16), edited by Professor Belak, published the results of many years of activities and co-operation of the MER research group, as the book repeatedly refers to the role and impact of synergy effects within and between enterprises operating in the new and old EU member states, as a new element of competitiveness. This is how the possibility of SME involvement in networks, associations and clusters has been brought into the picture as an instrument to boost competitiveness.

Professor Lubica Lesakova describes a very similar situation in her presentation analysing the situation and future opportunities of SMEs in Slovakia (17). The number of employees, market share, and export figures are used to illustrate the economic role of SMEs, while the main factors of competitiveness are summarised as follows:

- To implement an effective management scheme
- To posses skilled personnel and management staff
- To apply for innovative, modern and efficient technologies
- To achieve high quality in their products and services
- To put more effort into networking, subcontracting and developing clusters

László Szerb and his research team have been studying various segments of the SME environment in Hungary for a long time, for example:

- Entrepreneurship teaching and entrepreneurial ability of students
- Entrepreneurial culture
- The correlation of SME increase to the international environment

His statements on the subject of SME competitiveness were utilized in our research by (19) on the basis of analyzing the factors influencing the development and increase of SMEs in Hungary. In addition, a considerable part of the distributed questionnaires – mainly from country-side regions – could be collected with his cooperation, and we thank him for it.

Over the past few years, attention has moved towards family businesses (FB) in the Central and Eastern European countries, in cooperation with MER Net. In this context, in 2003 the following objectives were set as a target for research (18):

- The situation of FB in cooperative countries and their importance for the development of international economies;
- The state of existing research and consulting databases, including data about FB;
- Particularities of external and internal factors influencing the development and operation of FB.

As a result of years of preparation, an international R+D Cooperation Agreement was elaborated at the end of 2004 by our SME research, development and international publication activity with the above mentioned researchers, who are experts on the subject, and Central-Eastern-European Universities respectively. The cooperation aims at increasing the partners' scientific, technical and economic R+D level and at monitoring, utilizing and forming the continuously renewing international technical level. The means of achieving our goal is the coordination of partners' R+D activities, the regular exchange of experiences between research organizations – e.g. the Management, Enterprise and Benchmarking (MEB) yearly conference of Óbuda University – and further use of synergy effects.

The above short and fragmented summary illustrates the research environment in which the Óbuda University SME research team has been working for more than ten years now.

2 Sampling and the Method of Survey

This report has a double goal: on one hand compiling, classifying and introducing factors usable for examining the competiveness of SMEs; on the other hand, providing a simple survey of the status of the competitiveness of local small enterprises, based on the responses to the questionnaires. Further analyses are underway, e.g. the regional distribution, or differences by sizes, and the results will be published later.

The sample of businesses used in the survey comprised independent legal entities employing no less than 10 and no more than 49 persons, and having net annual sales revenues not exceeding a HUF amount equivalent to EUR 7 million, or a balance sheet total not exceeding a HUF amount equivalent to EUR 5 million.

When launching the survey, we selected the businesses for the purposes of the questionnaire from the database Magyar cégek by Dun & Bradstreet Hungária Kft with a view to the number of people employed, the business activity and representativeness, based on the data of the Central Statistical Office.

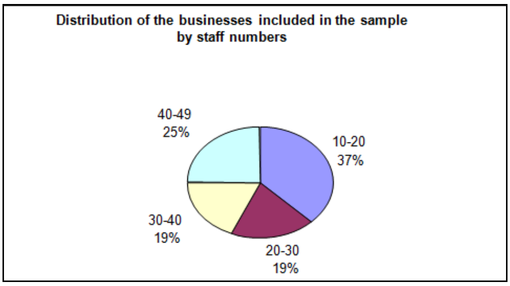
At the start of the survey, a database consisting of more than 300 companies was set up, and a questionnaire was forwarded to the majority of the businesses as an attachment to electronic messages, and the minority received it by post or in person. In 2007 and 2008 we received 247 suitably completed questionnaires. This means the sample makes up 1% of the active small enterprises in Hungary.

The questionnaire is 20 pages long, and endeavours to cover all fields of corporate operation. The questionnaire was compiled partly on the basis of a questionnaire elaborated by the Centre for Research in Competitiveness at the Corvinus University of Budapest, adapted to small businesses.

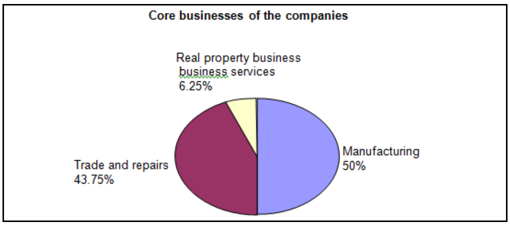
Fundamental Features of the Sample

Representativeness of the database was examined in the light of certain characteristic features which can be compared with the available economic statistical data.

Distribution by Staff Numbers



Core Businesses of the Companies



The questionnaires were sent to companies active in three characteristic sectors including a large number of businesses. The selected sectors included: manufacturing, trade, repairs, real estate agency and business services.

Representativeness of the Sample in a Breakdown of Core Businesses

	Population	Sample
Manufacturing	40%	50%
Trade and repairs	38%	43.75%
Real estate and business services	15%	6.25%

The data of the above table reveal that the distribution of our sample according to sectors differs from the composition of the population, mainly in that it has more companies active in manufacturing, trade and repairs. The sample has fewer companies in the real estate and business services sectors

Regional Distribution of Businesses

For the sake of simplicity, we divided Hungary into two parts to reflect regional distribution: Budapest and the countryside. 43.75 per cent of the questionnaires were completed by companies active in Budapest, and 56.25 of them by businesses located in outside the Budapest area.

Regional Composition of the Sample and the Population

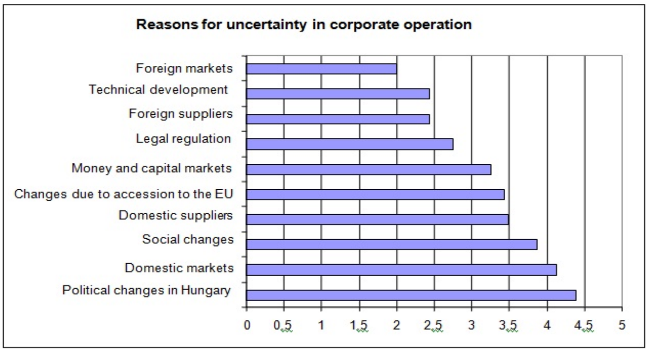
	Population	Sample
Budapest	25%	43.75%
Countryside	75%	56.25%

The table shows that fewer companies were included in the sample form the countryside than in the population, and more businesses contributed to the survey by information from Budapest.

3 Findings of the Survey on the Macro-Economic Factors

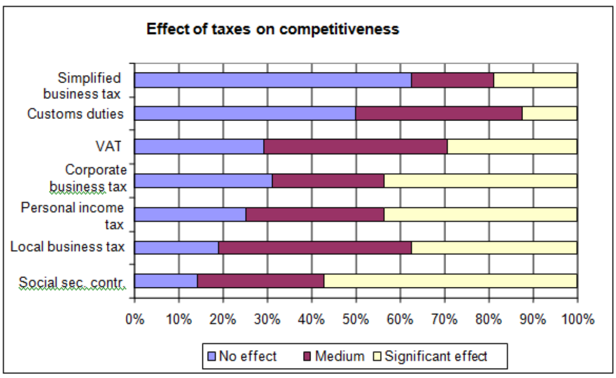
Reasons for Uncertainty in Corporate Operation

In Hungary, the most important reason for uncertainty is the political factor, followed by domestic markets and social changes. Foreign markets, technical and technological development and foreign suppliers can be regarded as relatively stable environmental segments.



Effect of the Individual Kinds of Taxes on Competitiveness

In connection with the individual kinds of taxes and rates, we asked the respondents about their effects on competitiveness. Most businesses consider social security contribution (50%), corporate business tax (43.75%) and personal income tax (43.75%) as the predominant factors.

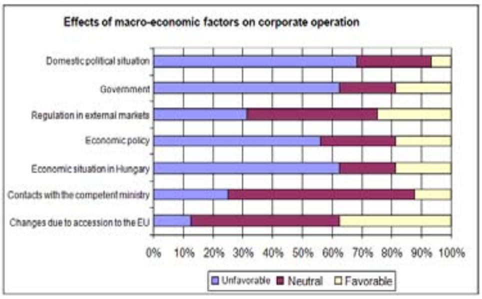


The majority considers the simplified business tax (62.5%) and customs duties (50%) as having no impact on competitiveness. 43.75 per cent of the businesses considered local business tax as having medium impact.

Major Effects of Macro-Economic Factors on Corporate Operation

Small businesses consider the domestic political situation (68.75%), the domestic economic environment (62.5%) and the activity of the government (62.5%) as the key factors affecting their business activities.

Changes due to accession to the European Union (37.5%) were evaluated as a favourable macro-economic factor by most of the companies.

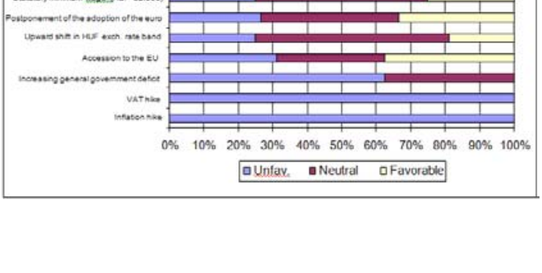


Effects of the Macro-Economic Environment on Businesses

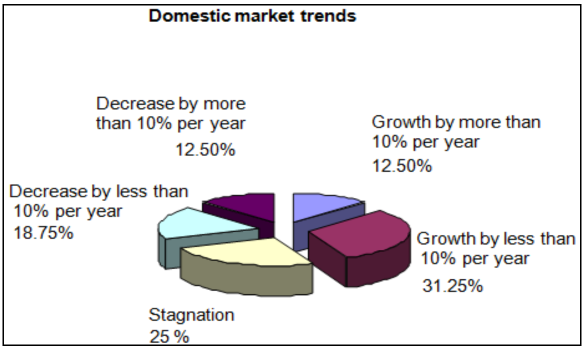
Certain significant economic factors of the macro-economic environment were also evaluated separately from the point of view of corporate operation. The findings show that reliable monetary policy (50%) is the only one of the listed factors that was regarded as a definitely supporting factor. The second most favourable factor was accession to the EU (37.5%). The factor considered by the respondents as the third most favourable was an upward shift in the HUF exchange rate band (31.25%).

All respondents considered the rise in two of the unfavourable factors – inflation (100%) and VAT (100%) – as detrimental to their businesses. The third such factor included the general government deficit (62.5%).

Postponement in the adoption of the euro (56.25%) and the specific level of the statutory minimum wage (50%) were seen as neutral factors.



Trends in Domestic Markets in the Past Three Years



The majority of businesses thought that their turnover had been growing in the domestic market.

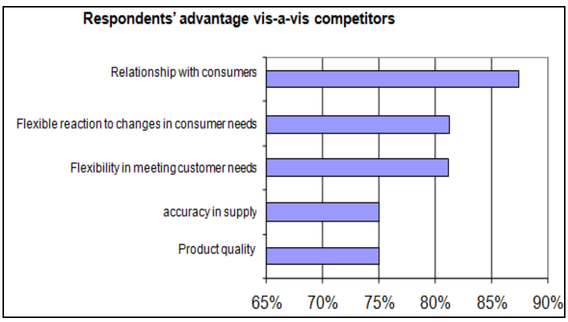
Competitors

The majority of companies know their competitors and are aware of their financial standing. The majority of the companies (62.5%) have 4-5 major competitors.

We requested the companies to compare their own performance on the basis of 45 considerations with their most powerful competitor, and indicate the fields they wished to improve. The following three figures show the results of the comparison to competitors.

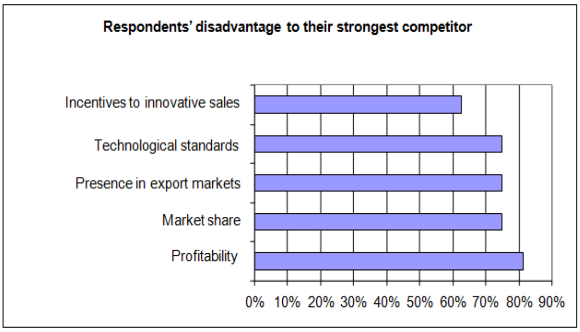
In what follows, our survey tackles the best, the worst and the five areas most in need of development.

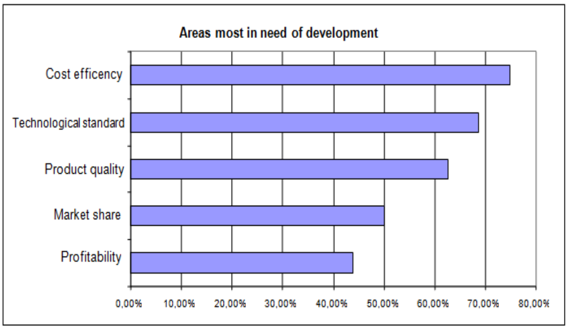
The majority of businesses are of the opinion that their contacts with the consumers are the most successful field, followed by flexible reaction to the changes in consumer needs. Next come accuracy in supply and product quality.



The weakest points in comparison to competitors are profitability, market share, presence in export markets, technological standards and incentives to innovative sales.

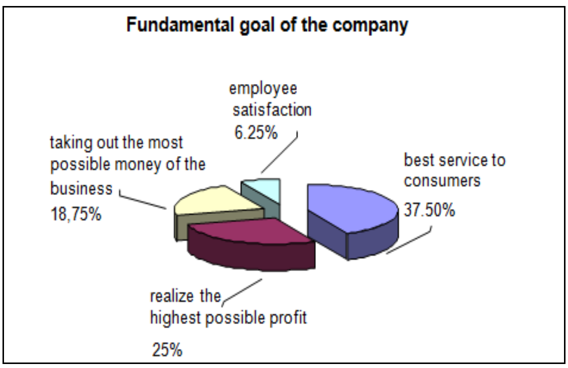
The fields they wish to develop do not necessarily coincide with fields in which these businesses fall behind their competitors. Among the fields to be developed, cost-efficiency was indicated by most of the respondents, followed by technological standards, quality of goods, market share and level of profitability.





Fundamental Goal of the Company

37.5 per cent of the businesses considered the provision of the best possible service to consumers as their fundamental goal. 25 per cent of the respondents envisaged the realisation of the highest possible profit as their fundamental objective.



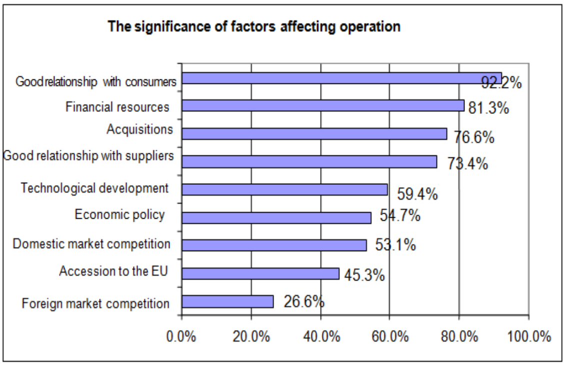
Taking the most money out of the company was seen as the primary goal by 18.75 per cent. Only 6.25 per cent of the respondents considered employee satisfaction as a fundamental goal.

Significance of Factors Affecting Operation

The respondent businesses considered good relationships with their customers as the most powerful factor affecting their operation (92.2%). The second most important factor included financial resources (81.3%).

Other significant factors included acquisitions (76.6%) and good relations with suppliers (73.4%).

Accession to the EU (26.6%) and foreign market competition (45.3%) were factors considered to have the least effect on their operation. The 26.6 per cent assigned to accession to the EU is much stranger; in an earlier issue, this factor was considered as one of the most important elements.



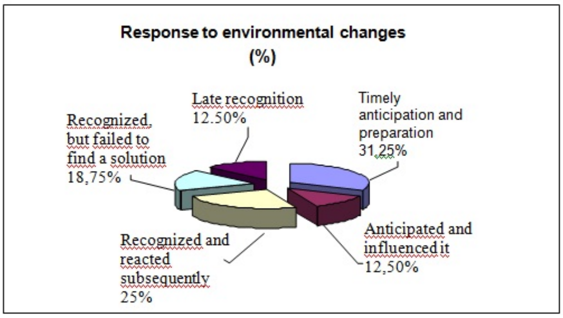
Response to Environmental Changes

In the interviewed businesses' opinion, the most frequent response to environmental changes is the timely recognizing of changes and consequent timely preparation for them. This was indicated by 31.25 per cent of the businesses.

18.75 per cent of the businesses claimed that they had recognized changes but could not adjust because they failed to find appropriate solutions.

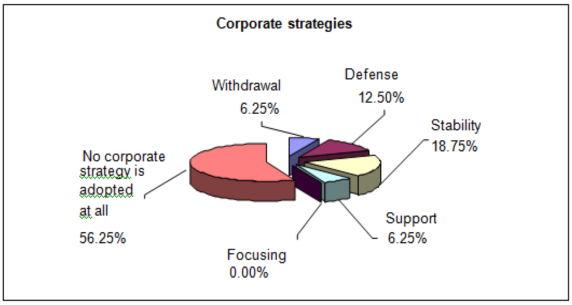
12.5 per cent of the participants in the survey recognized environmental changes late.

This means that 43.5 per cent of the businesses reacted on environmental changes extremely well; however, if subsequent reaction is also considered appropriate, 68.75 per cent of the businesses may be deemed to have good adaptability. This favourable picture is slightly more subtle due to the fact that the businesses evaluated themselves.



4 Findings of the Survey on the Micro-Economic Factors

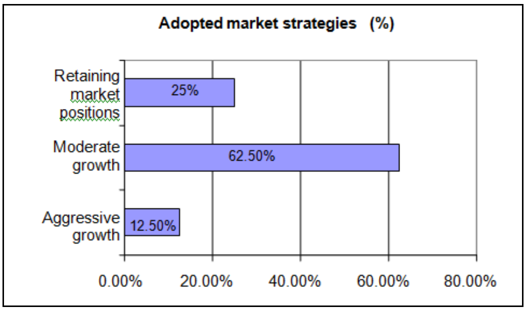
Corporate Strategies



Only 12.5% of the businesses have written strategic plans and most of them do not follow any market strategy at all (56, 25%). 6.25% of those with a corporate strategy withdraw, 12.5% have a defensive strategy and 6.25% follow an aggressive strategy. None of the companies in the survey has a focusing strategy to follow.

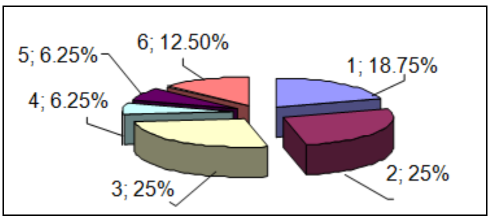
Market Strategies

In connection with the implementation of a market strategy the respondents evaluated three main objectives. For the majority, the most acceptable objective was moderate growth (62.5%). This is followed by the retention of market share (25%), whereas aggressive growth was valued only by a smaller group (12.5%).



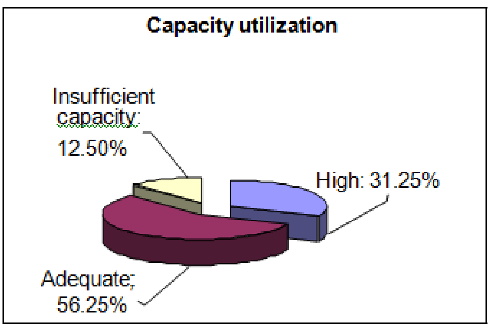
Business Plan

Most of the businesses included in the survey do not make business plans; 18.75% of them do not make a business plan at all (1). 25 per cent make plans in their heads but they do not discuss those with their colleagues (2). Sometimes plans are put down on paper, but in 25% of the businesses it is not harmonized with anybody (3). 6.25% of the businesses prepare production, purchasing, labour, cost, performance and liquidity plans on a regular basis (4). Businesses make an analysis of the regularly prepared plans and explore the reasons for deviations from the plan (5) in 6.25% of the enterprises. After detecting the reasons for deviating from the plan's data they implement the necessary measures (6) in 12.5% of the businesses.



Capacity Utilization

31.25% of the businesses included in the survey utilize capacity only to a small extent, 56.25% of them think they utilize it properly, and 12.5% have insufficient capacity.



Capital Investments

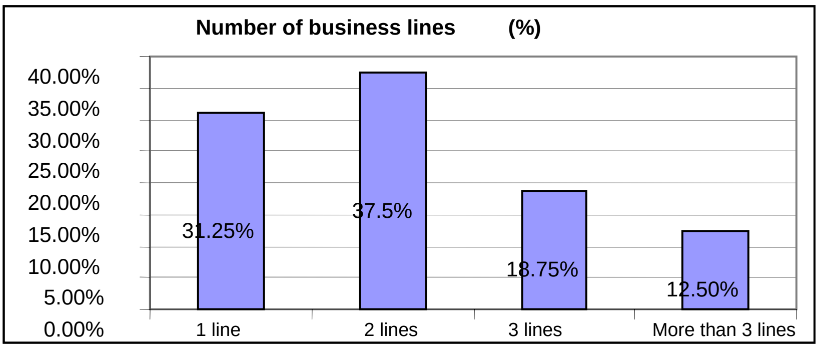
Most businesses in the survey (75%) had had an investment project exceeding HUF 5 million in the last three years. The invested funds were used for buying a new business facility, an office, machinery and vehicles. In 81.25% of these investments, a loan was used at least in part for funding. Borrowing is not seen as a serious problem for most of the small businesses (61.25%); however, because of the high interest rates and insecure future they do not prefer long term loans. 61.25% of the businesses have investment plans for the next 3 years of a value over HUF 5 million.

Tender Applications

12.5% of the businesses in the survey had participated in some kind of tender and had been granted support. Their applications were successful in all the cases and the allocated funds had been used.

Business Lines

31.25% of the businesses pursue a homogenous activity. 37.5% of the businesses are engaged in two different business lines, 18.75% of them in three lines, and 12.5% in more than three lines.



New Products and Services

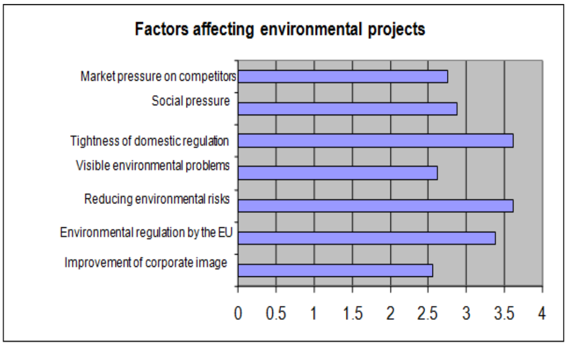
62.5% of the businesses launched a new product in 2006. New production technology was introduced at 25% of those asked in 2006. According to the answers given by the businesses, at 75% of them the parameters of products and services do not change frequently.

Information Technological Background

93.75% of the businesses have internet access, but only 43.5% of them have websites.

Environmental Projects

None of the businesses surveyed have an environment centred management system.



In the last 5 years 43.75% of the businesses have implemented projects with the purpose of environmental protection (e.g. building a sewerage system).

The environmental performance of the businesses questioned depends primarily on the regulations of the authorities. The second most important factor is the environmental legislation of the European Union. The third most important factor is the visible problems of environment. The most important driving engines of environmental investments are official expectations coming from various places. Improvement of the company's image and the market pressure of competitors impose the smallest motivating force on the businesses.

Employees

62.5 of the businesses recruit new employees by the help of advertisements. 25% try to find new work force via friends. 12.5% of the businesses have already used the services of employment offices.

We asked the persons filling in the questionnaire to rank the 6 features below according to their relevance in selecting the new employees.

The ranking according to the survey:

1 The practice and experience of the employee;

2 The qualification of the employee;

3 Sympathy;

4 Age;

5 How he/she fits into the current staff;

6 References.

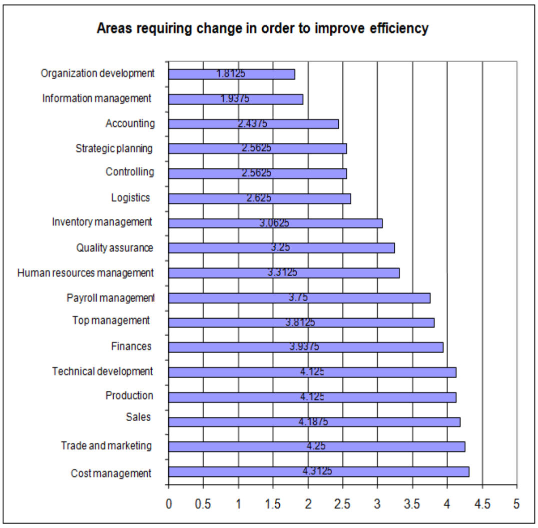
According to the employers, it is relatively difficult to find the necessary experts in the labour market.

56.25% of the managers of the businesses in the survey studied in vocational secondary schools or grammar schools. 31.25% of them graduated from a college/university. 12.5% of them have qualified as skilled workers.

Areas in Need of Developing the Improvement of Efficiency

In order to improve the efficiency of the business activity, companies think that there is still a lot to be done in the transformation of cost management, trading /marketing and sales.

In order to reach good management, more than just the average changes will have to be introduced in the field of production, technical development, finances, top management and payroll management.



Organisation development, information management and accounting are those areas where company experts feel the least necessity for changes.

Supplier Performance

The performance of supply on time is 84 per cent. In other words, corporate managers experienced some kind of delay in 16 per cent of the cases. Problems related to supply quality arose in 18.75 per cent of the cases. In terms of volume, 90 per cent of the performances are correct, i.e. problems are found with the volume of freight on every tenth occasion. Invoice accuracy is 89 per cent. Thus problems are encountered in connection with invoices in 11 per cent of the cases.

84 per cent of the freight was found to be undamaged. This means that 16 of 100 cargos arrive at their destinations in a damaged condition. In 56.25 per cent of the cases more than four suppliers were used; 31.25 per cent of the businesses worked with four suppliers, and 12.5 per cent had less than four suppliers.

Payment Discipline

68.75 per cent of the respondent businesses claimed that they had never or very rarely paid their suppliers late. However, 12.5 per cent of them pay regularly or frequently late. A survey of the payment discipline from the seller's perspective reveals that 31.25 per cent of their customers are regularly late with payment, while 37.5 per cent answered that their partners performed on time and late payment was rare.

Default penalty interest continues to be the most frequently applied sanction for late payment. The second most frequently used sanction is that new orders are performed only after the debt has been paid. Customers who pay late may subsequently purchase goods only for cash from every fourth business. Only 12.5 per cent of the businesses use the possibility offered in legal sanctions. The customer is no more provided service and option is applied only in extreme cases.

Summary

Our assumptions made on the basis of an incomplete evaluation of the completed questionnaires that have been returned reflect our very first impressions. Stressing the above, we wish to point out the following statements and correlations.

Small businesses active in manufacturing predominate in the sample. Rural businesses are underrepresented in the sample.

During the survey, businesses considered developments in the business environment as definitely favourable. In addition to reporting increasing uncertainty, they deemed Hungary’s political climate, domestic markets and social changes as having marked effects.

Years after Hungary’s accession to the European Union, SMEs cannot perceive major impacts of accession, or blame the prevailing political situation for all changes.

Small businesses do not capitalize on the opportunities offered by the European Union, and do not make efforts to apply for EU grants and funds, or attempt to penetrate new markets. In our opinion, this is due to the lack of information; the companies participating in our survey are not aware of the opportunities available for them.

Among the economic policy factors, a reliable monetary policy has the most benevolent impact on the operation of businesses.

Micro economic factors show a very interesting image about SMEs and suggest the most important areas to develop are those such as cost management, trade and marketing, production, technical development and finances.

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