THE PERFORMANCE OF HUNGARIAN AND EUROPEAN SME'S

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У всіх країнах світової економіки малі та середні підприємства відіграють значну роль у сфері послуг, торгівлі та аграрному секторі. У їх розвитку, здатності до інновацій існують значні відмінності. Серед цілей одних найважливішим є поступовий розвиток та вимушений ріст, у той час, як інші, в рамках родинного бізнесу прагнуть до стабільного, передбачуваного господарювання. Метою даного дослідження є порівняльна характеристика продуктивності угорських та європейських підприємців.
Ключові слова: *підприємство, теорія підприємництва, економіка Угорщини, економічна політика ЄС, роль малих і середніх підприємств в Угорщині.*

PREFACE

Enterprise and entrepreneur are key words of today just like globalization and knowledge-based economy. These concepts greatly determine the increase of economic performance and represent real value and competitive advantage. The performance of economy is dependent on knowledge at an increasing degree while the success defined as goal depends on the enterprise, the entrepreneur i.e. the user of this knowledge.

1 ENTREPRENEURIAL THEORIES

While it is widely acknowledged that entrepreneurship is a vital force in economies of developed countries, there is little consensus about what actually constitutes entrepreneurial activity. Scholars have proposed a broad array of definitions, which when operationalised generate a number of different measures (Herbert and Link, 1989), but the failure of a single definition of entrepreneurship to emerge, undoubtedly reflects the fact that entrepreneurship is a multidimensional concept. The definition used to study or classify entrepreneurial activities actually reflects a particular perspective or emphasis. Definitions of entrepreneurship typically vary between economic and management perspectives (Audretsch, 2006). Entrepreneurship has originally been conceptualised as an economic function, and the entrepreneur as someone willing to bear risk to make a profit. Although economics gave the entrepreneur a function in the market, it was eventually almost entirely eliminated in mainstream economics. It was then that behavioural science researchers attempted to develop theories of the entrepreneur. But by defining the field in terms of entrepreneurial attributes, entrepreneurship scholars "generated incomplete definitions that do not withstand the scrutiny of other scholars" (Gartner, 1988; Shane and Venkataraman, 2000, cited in Brown, 2006). Venkataraman (1997) defines entrepreneurship broadly as the process of discovering, evaluating, and exploiting opportunities, which go on to reify themselves in the form of new business ventures. In this model an entrepreneur could be defined as "someone who acts with ambition beyond that supportable by the resources currently under his control, in relentless pursuit of opportunity" (a definition common to entrepreneurship professors Howard Stevenson and Jeffry Timmons). Pinchot (1985) coined the term 'intrapreneurship' to describe entrepreneurial-like activities inside organisations and government. The concept is commonly referred to as 'corporate entrepreneurship'. Still another view of entrepreneurship is that it is the process of exploiting opportunities that exist in the environment or that are created through innovation in an attempt to create value. Gibb (2005) defines entrepreneurship in terms of sets of behaviours, attributes and skills that allow individuals and groups to create change and innovation and cope with, and even enjoy, higher levels of uncertainty and complexity in all aspects of their life.

2 THE ENTERPRISE STRUCTURE OF THE HUNGARIAN ECONOMY

During the years 1989-90 Hungary came through a radical social-economic transformation, which we consider as the beginning of the political transformation era that initiated the process of the radical transformation of the economy. The economic goal of the political transformation is to build a well-operating, modern private-property-based market economy; the heart or base of the system is to create market competition and - besides the increasing productivity - social welfare.

Parallel with the privatization of public enterprises a slow spread of private enterprises began. (Práger, 2008. pp. 282-283) In 1998 the Company Law was carried in Hungary which made it possible to transform the public enterprises into modern legal form. After 1990 a mass of new private enterprises was established which at the same time also involved the structural transformation of production. The privatization of public property and the formation of new private enterprises together resulted that in 1992 the half of the GDP was generated by the private sector and this proportion has been increasing rapidly since then.

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The political transformation established for the sudden growth of enterprises by changing the whole political and economical environment. The growth of the number of economic players itself is only *the sign of the headway of market processes, the spread of competition and a healthy economic* but the process is extremely complex, the expansion of the entrepreneurs' circle is the result of several economic developments.

Within a decade following the political transformation the structural system of the economy changed radically, an entrepreneurs' structure evolved where the number of registered enterprises is over 1 million which number increased even further but in a slower pace after joining the EU. (See table 1 and figure 1.)

Considering the data of the last years there has not been any radical change in the structure of enterprises of the Hungarian economy based on the data of KSH the number of registered enterprises reached beyond 1.5 million, the number of active enterprises was 701.390 in 2008. The signs of the financial-economical crisis could not be seen in the number of active business organizations at the end of 2008.

***Table 1*The number of registered and active enterprises in Hungary**

Period	Number of live enterprises	Number of registered business organizations	Difference
Year 1998	---	1100757	--
Year 1999	580362	1126889	*546527*
Year 2000	625147	1175480	550333
Year 2001	645881	1207831	561950
Year 2002	693788	1236890	543102
Year 2003	700855	1263990	563135
Year 2004	708307	1286993	578686
Year 2005	707756	1298989	591233
Year 2006	698146	1276076	577930
Year 2007	688058	1325635	637577
Year 2008	701390	1654299	952909
Year 2009	--	1686351	--

Source: KSH

Definition of an active enterprise: an enterprise is active if it had income or employed at least one person in the current year (KSH, 2005)

However the difference between the number of registered and active is increasing rapidly. The number of active enterprises slightly decreased in the years before the outbreak of the crisis while a constant increase can be seen in the number of Ltd-s and Plc-s. The rate of increase is 12% in case of Ltd and 5% in case of Plc-s. The number of *free enterprises* decreased by 1% compared to the previous year, in case of the other corporate enterprises (Lp-s, Gp-s, cooperatives) the rate of decrease is between 4 and 6 %. The most popular legal form within the enterprise structure of the Hungarian economy is the Ltd which can also be seen in figure 2. It constantly gathers ground against free enterprises.

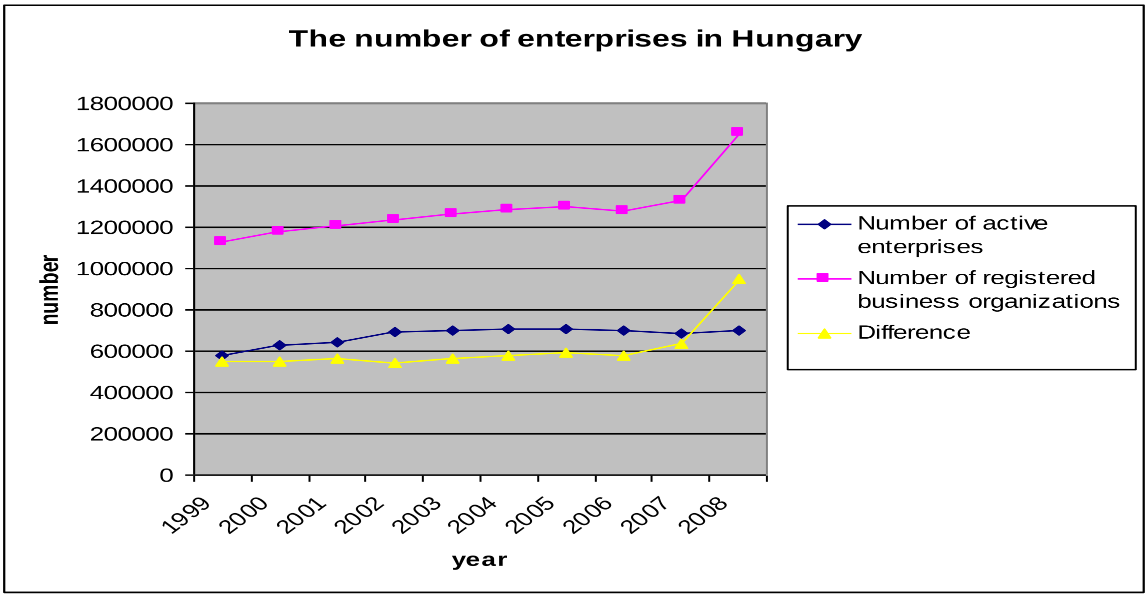


Figure 1 The number of registered and active enterprises, 1999-2008 Hungary
Source: http://statinfo.ksh.hu/Statinfo/haViewer.jsp (12 July 2010)

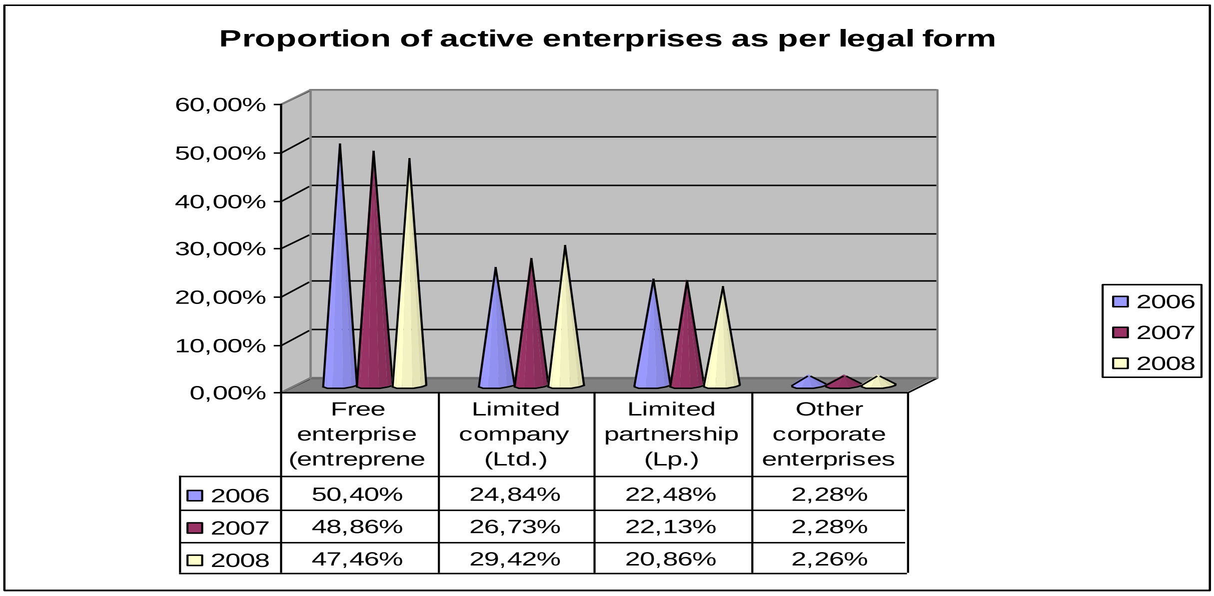


Figure 2 Proportion of active enterprises as per legal form
Source: based on the data published in the statistical tables of KSH (2006- 2008)

When analyzing the data of actually active enterprises we get the following picture of the structure of the Hungarian economy: in 2008 98.4 % of live enterprises were small enterprises with less than 50 employees, the rate of medium enterprises with employees between 50 and 249 was 0.7%. The small and medium enterprises (SME) total up to 99.1% of the total active enterprises. The proportion of large enterprises – similar to the previous years – is only 0.1%. Within this – based on the data of KSH:

- the number of *micro enterprises* is rather high, 662 thousand, 94.4% of the active enterprises is either corporate enterprise with a small number of employees or self-employing free enterprise.
- 86.7% of *Ltd-s* is micro enterprise, 11.1% is small enterprise with employees between 10-49 persons, 3,955 are medium and 566 are large enterprises.
- out of 3.728 *Plc-s* 360 are large enterprises, 847 are medium enterprises, but a larger proportion (67.6%) is small enterprise, 40.2% of these is micro enterprise.
- out of the 2.318 *cooperatives* 10 operated as large enterprise, 202 were medium, 425 (18.3%) small and 1.681 (72.5%) micro enterprises.
- 98.2% (143 thousand) of the *Lp-s* were micro enterprises and only 14 were large and 85 were medium enterprises.
- 97% of the *Gp-s* were micro enterprises.
- 99.5% of *free enterprises* were micro enterprises and their proportion grows year by year.

As per the company-demographic data of KSH, the number of active enterprises increased in every category compared to the same period of the previous year. The biggest growth was found in the category of large enterprises, by 2008 their number increased by 2.9%, this was followed by a 1.9% growth of free enterprises, then the small enterprises with 1,7%, while the number of small enterprises increased by 1.3%. The enterprise structure is changing constantly, the number of SME-s is increasing while their proportion is also changing.

3 CHARACTERISTICS OF THE HUNGARIAN SMALL AND MEDIUM ENTERPRISES TODAY

The last 20 years were on the rapid development of technologies, the internationalization of enterprises and the globalization. In this process the minimum economical plant-size became much smaller this is one of the most essential factors of the headway of the SME's. (Román, 2002)

A significant part of the Hungarian micro, small and medium enterprise sector has been tried by the economic crisis that marked the last year. The reason for this was not only the narrowing of the markets but on the one hand there is no invigorating program that is overall and effective enough, on the other hand vital disadvantages limit their margins.

The emphatic role hold by the domestic SME-s within the economy presents well that this sector has been permanently adding up to more than 99% of the domestic enterprises for already two decades. These enterprises play a significant role particularly in job creation and increasing unemployment as they employ at least two third of the total employees therefore this sector can be considered the biggest employer. In the same time these enterprises contribute to GDP with an average 40%, while their export is around 20%.To the strengths of the enterprises of this sector belong the quick adaptability and the high creativity but in spite of these the domestic SME-s are notably behind the large domestic enterprises and to the well-developed member states of the EU considering their income and export. (Bubrik, 2010)

Based on the data of Global Entrepreneurship Monitor published by Zoltán Román by KSH in 2006, the indicator of the total enterprise activity was 11.4 in Hungary. Based on the 2008 report this number was 11,8. As per a fresh international comparison the data of entrepreneurial thinking show a negative picture as at the beginning of 2009 the rate of those who saw any possibility to start a new enterprise within the forthcoming 6 months was only 26% in Hungary. Lower rates were only shown in Belgium (23%) and Japan (13%). In Hungary 47% of the respondents are afraid of failure. This rate is higher in 6 countries: 49% in Germany, 52% in Romania and Spain, 53% in France, 55% in Greece and 66% in Russia.

Table 2 **The partition of the most important indicators describing the situation of enterprises as per size categories, 2008 (%)**

Index numbers	0-1 person	2-9 person	10-49 person	50-249 person	SME total	250-person	Total
Number of enterprises*	76,9	19,0	3,5	0,6	**99,9**	**0,1**	100,0
Employees*	6,9	215	21,7	19,4	**69,4**	**30,6**	100,0
Income	7,6	14,6	17,8	21,3	**61,3**	**38,7**	100,0
Export	4,7	6,7	11,6	14,1	**37,0**	**63,0**	100,0
Added value	6,1	12,7	17,0	19,6	**55,4**	**44,6**	100,0
Equity	8,6	11,6	13,2	19,9	**53,3**	**46,7**	100,0

*****included financial sector

Source: NFGM Strategy of development of SME's 2007-2013, Interim Monitoring Report, Year 2009

A remarkable data line can be found a report of World Bank, in the part of dedicated to business environment, Hungary has been ranked to the 45th (2008) and 41st (2009) place out of 181 countries which in this connection means improvement but in case of protecting investors and taxation we only got to places of 113th and 111th.

The economic and social importance of SME sector is recognized at an international level. The governmental efforts to the development of enterprises are primarily orientated to increase the competitiveness of the sector.

Governments of every country have developed extensive programs on their business development policy that aim to improve the economic performance of these countries by involving the sector of medium size enterprises.

The Interim Monitoring Report made the following statements for year 2009:

- The micro, small and medium enterprises represent 99.9% of the total active enterprises, within this the rate of self-employing or employee-less enterprises is the highest, 76.9%
- The SME-s provided employment for *69.4% of employees* within the business sphere in 2008.
- *61.3% of the income* of the enterprises was realized which rate had barely changed for years.
- *More than half of the GDP* was produced, the SME-s managed to increase their share from 55.1% (2007) to 55.4%. The share of SME sector in GDP-production has been increasing since 2005 continouisly.
- Their share in export – similarly to the data of 2007 – is 37%, - the share of large enterprises is constantly high, 63% as three third of SME-s produce for inland markets.
- The undercapitalization of SME-s is typical; the equity data still show the predominance of larger enterprises regarding concentration of capital.

Based on the above, it can be clearly seen why SME-s can be „the engines of economy". In fact their economic role indisputable, the current situation of SME-s fundamentally influences the situation of the whole economy.

The NFGM annual report that describes the situation of SME-s gives an objective picture of the development of this exceptionally important entrepreneur circle however the impacts of the financial-economic crises does not fully show up in the 2008 report yet.

➢The basic structural features of small and medium enterprises – their numerical ratios, their share in income production, etc. – have slightly changed since 2000.

➢They pursue activities that have high labor and capital requirements.

➢They participate more in employment than in turnover or income production.

➢The small and medium enterprises improved further in several areas (financing, management, info-communication, etc.). However their performance is smaller than of the small enterprises of developed countries. Their *competitiveness*, performance, effectiveness and human capital are required to improve perceptibly and in a notable pace.

➢The economic growth slowed down already in 2007 which was not reflected equally in the indicators of the companies of different sizes.

➢The headway of large companies and foreign-owned enterprises slowed down, in some areas even turned back (for example participation in capital, income, added value, export).

➢The employment increased for both free and corporate enterprises, moreover the importance of SME-s in employment increased even further.

➢The participation of micro, small and medium enterprises in GDP also increased.

➢As a result of the evolving crisis the situation of micro and small enterprises declined in 2008 compared to 2007 concerning both their economic situation and prospects and their own perspectives.

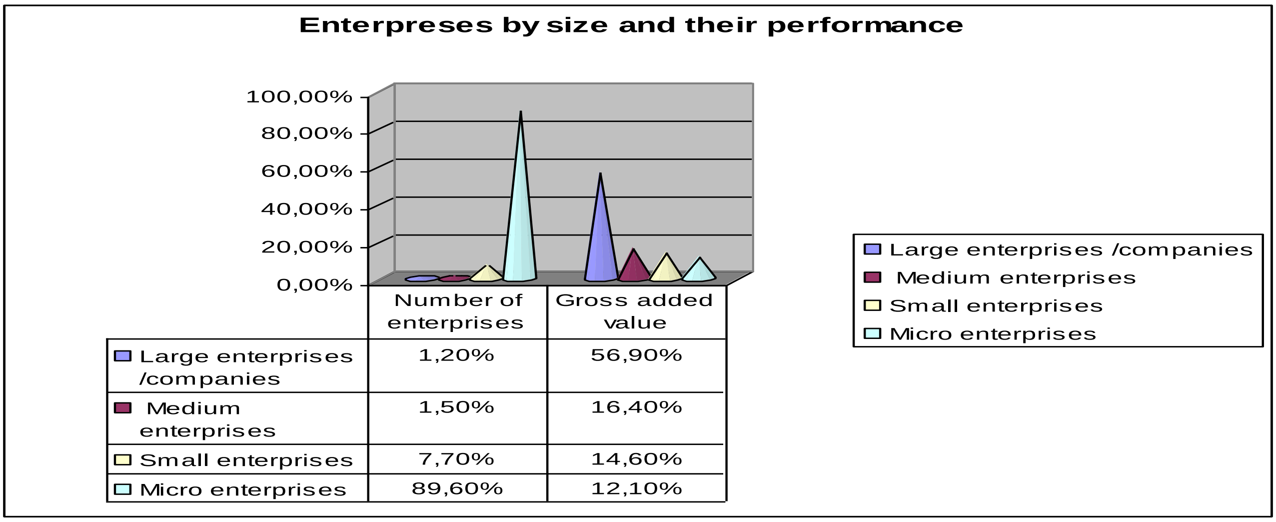


Figure 3 Enterprises by size and their performance, 2008
Source: Annual riport of APEH-SZTADI, 2009.

Figure 3 illustrates the feature of domestic enterprises that the number of micro and small enterprises is over 98% of the total enterprises.

Almost half of the gainfully employed find a job here, they give three third of the total net turnover and possess the fifth of the entrepreneurial capital. In the same time the majority of performance in turnover and GDP is provided by the large companies and they possess two third of equity, too.

4 A EUROPEAN UNION COMPARISON – BASED ON SOME HIGHLIGHTED FEATURES

In the developed countries including the European Union the SME-s got in the lime-light from the second half of the '80-s, this time it became clear that first of all this sector is able to create new jobs. (Kállay- Imreh, 2004)

Table 3 **The main features of non-financial enterprises within the European Union (EU-27) and Hungary (2007)**

EU-2007 / HU-2007		micro	small	medium	SME total	Large	TOTAL
Number and rate of enterprises by size	EU-27	**18.788**	**1.402**	**220**	**20.409**	**43**	**20.452**
		91,8 %	6,9 %	1,1 %	99,8 %	0,2 %	100,0 %
	HU	**708**	**27**	**5**	**740**	**1**	**741**
		95,5 %	3,7 %	0,7 %	99,9 %	0,1 %	100,0 %
Number and rate of employees	EU-27	**38.890**	**27.062**	**21.957**	**87.909**	**42.895**	**130.805**
		29,9 %	20,7 %	16,8 %	67,2 %	32,8 %	100,0 %
	HU	**1,302**	**556**	**481**	**2.339**	**737**	**3.076**
		42,3 %	18,1 %	15,6 %	76,0 %	24,0 %	100,0 %
Average size by no. of employee	EU-27	**2**	**19**	**100**	**4**	**1003**	**6**
	HU	**2**	**20**	**99**	**3**	**864**	**4**
Added value as per factor cost(billion euro) and its distribution(%)	EU-27	**1.251**	**1.132**	**1.070**	**3.453**	**2.537**	**5.990**
		20,9 %	18,9 %	17,9 %	57,6 %	42,4 %	100,0 %
	HU	**8,8**	**6,8**	**8,1**	**23,7**	**18,7**	**42,6**
		20,2 %	15,6 %	17,6 %	53,4 %	46,6 %	100,0 %
Work productivity* (th.euro/empl.), as a % of the average	EU-27	**32**	**42**	**49**	**39**	**59**	**46**
		69,6 %	91,3 %	106,5 %	84,8 %	128,3%	100,0%
	HU	**6,8**	**12,2**	**16,8**	**10,1**	**25,4**	**13,8**
		48,9 %	88,0 %	121,2 %	73,1 %	183,5%	100,0%

Source: NFGM, Small and medium size enterprises (Kis-és középvállalkozások) Annual Report 2009, (p. 43)

As per the most recent EU report (SPR) in 2007 the number of enterprises within the European Union (EU-27) was above 20 million from which 99.8% was small and medium enterprise, 92% micro enterprise with an average of 2 employees while this number was 19 for small, 100 for medium and 1003 for large enterprises. The average number for small and medium enterprises was 4 persons. Table 3 illustrates the percentile distribution of some important indicators of Hungarian enterprises compared to the average data of enterprises of the European Union.

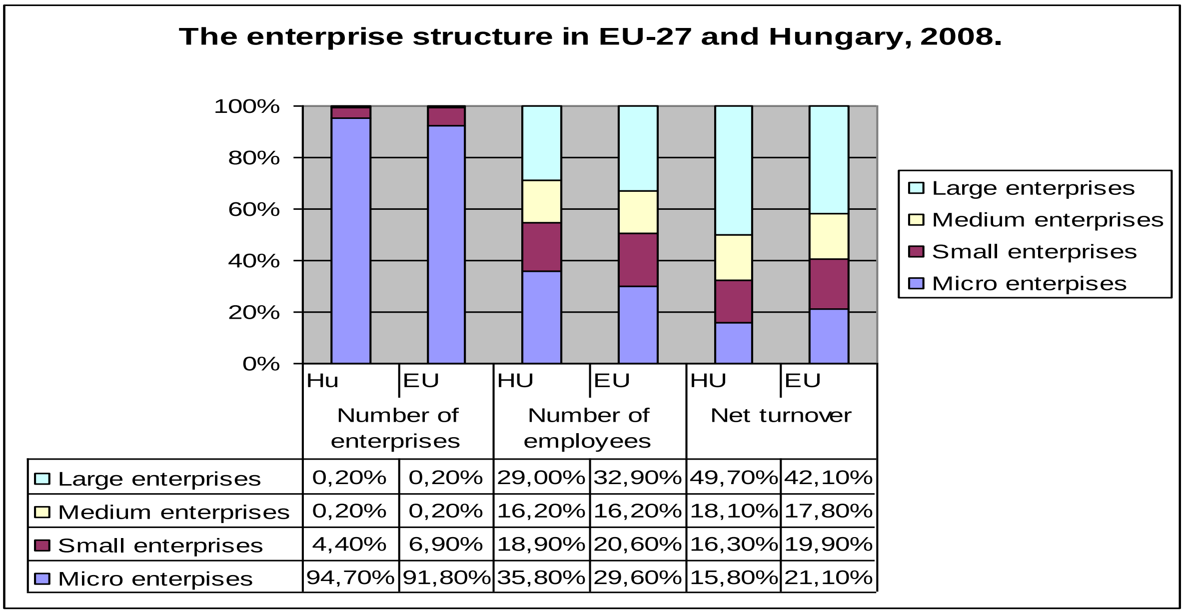
➢The role of SME-s within the economy is constantly stable and strongly influence the competitiveness of the economies.

➢Concerning the number of enterprises it can be stated that the difference between the Hungarian and the EU SME sector converge to each other and that within the SME sector the number of micro enterprises is the highest.

➢The employment rate is higher than the EU-27 average both in the SME and the large enterprise sectors.

➢In the same time the added value and the performance of work is far below the EU-27 average, the reason for this is that the performance of work is measured by the added value per 1 employee.

➢When analyzing the average company size it can be sated that only the average size of small enterprises is over the EU-average.



	Hu	EU	HU	EU	HU	EU
	Number of enterprises		Number of employees		Net turnover	
Large enterprises	0,20%	0,20%	29,00%	32,90%	49,70%	42,10%
Medium enterprises	0,20%	0,20%	16,20%	16,20%	18,10%	17,80%
Small enterprises	4,40%	6,90%	18,90%	20,60%	16,30%	19,90%
Micro enterpises	94,70%	91,80%	35,80%	29,60%	15,80%	21,10%

Figure 4 The enterprise structure of Hungary and the EU-average, 2008 (%)
Source: Own work, issue 109/3/2009. (p.1), Statisztikai Tükör

In the 1990-s the European Union faced more and more serious globalization and competitiveness challenges. The strategic program adopted in Lisbon in March 2000 gave a response to these challenges. The strategic goal adopted in Lisbon, 2000 included the following: by 2010 Europe has to become the *most competitive* and most dynamic *knowledge-based* economy that is capable for a sustainable growth and providing more and better workplaces. Now we know that this goal has not been achieved.

The other element of Lisbon Strategy was the establishment of a business-friendly environment – especially for the small and medium enterprises (SMEs).

The Lisbon Strategy on growth and employment was the first to recognize that the competitiveness of SME-s is needed to be increased. The final objective of this strategy that by using all advantages of the community market the SME-s would expand their activities to the international markets as well and that they would become the *engines of the European and Hungarian economy* that slowed down in the last 10 years.

• The enterprise development strategy of the European Union believes that one important role of the small enterprises is the maintenance of economic competition. A keystone of market economy is the competition that is an important motivating factor, it inspires to increase effectiveness, encumber the forming of monopolies and incline the less competitive enterprises for competition. The new market players are most often the small and medium enterprises that bring along the possibility of fast growth while their market presence also intensifies competition. Kállay- Imreh, 2004)

• The formation of a business-friendly environment involves the simplification of regulation and the improvement of financial, social and environmental factors in which the enterprise operates and also the better information supply.

Achieving the goals of the Lisbon Strategy has been slowed down also by the worldwide financial-economic crisis starting in autumn 2008.

Figure 5 illustrates well that the Hungarian enterprises sort of lag behind the EU average regarding „capabilities and innovation" and internationalization.

Concerning the situation of enterprises the Hungarian economy also performs below the EU average. An international comparison was not possible due to the lack of data regarding questions of environment, „the possibility of a second chance" and „think small first".

The economic crisis seriously affected the Hungarian SME-sector as well which on the one hand resulted in the drastic decline of export and inland demand and of liquidity indicators and in many cases led to the termination of enterprises. The crisis environment compounded the following dangers threatening the SME sector:

- frequent liquidity problems
- weak payment discipline
- increasing circular debt
- slow spread of info-communication
- increase of competitive disadvantage against large enterprises.

In the same time the crisis gave also a chance as the role of this sector within the economy is significant in job creation and in fighting against unemployment therefore will be a key participant in fighting against the crisis as well.

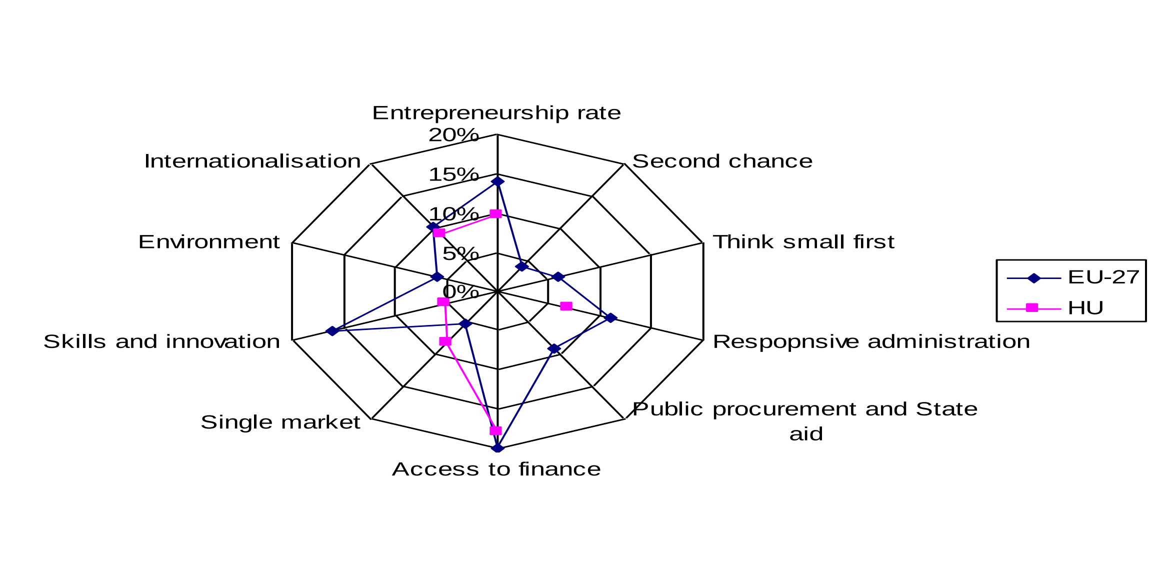


Figure 5 The comparative enterprise profile of the Hungarian and EU-27 SME-s
Source: Román: The role of SME's In Statistical Mirror, issue 2009/109., Volume 3, 4 August 2009. (p. 1) and in:European SMEs under pressure (p.5.)

CONCLUSION

The Hungarian SME sector responds to the changes of the domestic and international environment in a sensitive way, due to the under-capitalization the weak market relations and the lack of the most recent technologies and innovation. In case there won't be any significant improvement in these factors, the Hungarian SME sector might fall further back which could cause serious problems both in the revenue production and the employment.

"Hungarian businesses tend to fail more often than in more other Member States in EU, the overall rate of business activity is higher than in the EU-27 as a whole. … Similar to the average European respondent, Hungarian is more likely to prefer being an employee to being self-employed. Hungary stands out when it comes to the reasons for the respective performance: Hungarian respondents who prefer being an employee, more often than individuals in other countries, say it is because the right entrepreneurial climate (e.g. lack of a business opportunity, lack of finances) does not exist." (Eurobarometer: Entrepreneurship Survey of the EU25. P).

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